

## ABSTRACT

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### INTERNATIONAL FINANCE CAPITAL AND AFRICAN

### DEVELOPMENT: 1980-2001

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This dissertation examines how the change in the international economy away from manufacturing to finance has affected African development. The dominance of financial liberalization is obvious to most observers; however, discourse on the development of African economies since 1980 generally focuses on the primary lending institutions (the IMF and World Bank). This dissertation is really an attempt to create a narrative about the rejection of alternative forms of development and subsequent implementation of neoliberal policies. African countries rushing pell-mell to privatize, democratize, and implement all things neoliberal, crystallizes the sterile nature of alternatives to financial liberalization. Much of the discussion surrounding strategies for development remain grounded in previous notions of how countries develop, the stages of development, and generally how countries can develop their infrastructure. While all of these have salience, it does not quite capture the essence of how the world has been

transformed. It is no longer possible or sensible to discuss African development without understanding the role of international finance capital. Development cannot simply be understood by bargaining with foreign companies and attracting FDI. To be sure, that is not the only aspect of development but one that was heavily emphasized just fifteen to twenty years ago. The present global economic recession provides a perfect example of how important international finance capital, in this case derivatives, are so important to the international economy. Now we must understand derivatives and how this financial tool became so dominant in the international market economy.

INTERNATIONAL FINANCE CAPITAL  
AND AFRICAN DEVELOPMENT: 1980-2001

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## CHAPTER ONE

### INTRODUCTION

But who can now use the words of socialism with a straight face? . . . Now it is a sick joke . . . There are still radical leftists out there, who stubbornly claim that true socialism has not yet been tried; and there are still moderate leftists, who claim with more justification that one can reject Marxist-Leninism without necessarily becoming a disciple of Milton Friedman. But the truth is that the heart has gone out of the opposition to capitalism.

-Paul Krugman, *The Return of Depression Economics*

All social scientists are obliged to develop and sharpen one basic necessity: the ability to separate rhetoric from reality. This ability depends on the researchers' ability to flesh out ideological arguments advanced as empirical truths. Indeed, as many would now agree, all social science is value-laden and this is particularly clear in the field of political science. More to the point, discussion concerning the nature of development, globalization, and democracy is loaded with ideological propaganda from the left and right. This is particularly evident when analyzing the struggle over ideology (particularly over the last fifty years) that continues to dominate analysis of African development and the impact of International Finance Capital (IFC) on African countries. Although this struggle has tended to center on a critique of the structural adjustment policies of the International Monetary Fund (IMF) and the World Bank (IBRD), an analysis of the

influence of International Finance Capital is an attempt to understand the relationship that determines the rationale for these aforementioned funding institutions.

The current financial crisis that envelops the globe is a perfect example how significant International Finance Capital has become. The usual suspects, the IMF and World Bank, have not been mentioned as a variable in the most recent global recession. A salient fact that was unthinkable only five to ten years ago. This current crisis requires an understanding of abstract financial instruments such as financial derivatives, most notably credit default swaps. There is no mention of structural adjustment programs and the like. Although there is a shared culture that both derive from: A culture that privileged deregulation and unfettered capitalism over transparency and accountability. Millions of Americans had to take a crash course in financial derivatives and learn what forward and backward options were. It is in this context that people came face to face with the reality that seemingly abstract financial instruments affect the lives of billions in a very concrete manner. In fact, it illustrates the central concern – or what should be the central concern for political scientists.

An inquiry into International Finance Capital cuts to the core of what political scientists presumably are and should be concerned with - power. Political scientists should at a minimum understand one of the more basic political realities - politics is a struggle for power and is unwaveringly linked to economic interests. This recognition provides the context for exploring such basic questions as: Who benefits? What is the nature of a particular relationship? What are the historical factors that shaped this present reality? By extension, it should strike one as logical that questions of this sort are always

timely and indispensable, particularly when the topic is development. These questions presumably have nothing to do, or should have nothing to do, with feasibility or timeliness. In addition to the time-honored search for relevance, our concern as political scientists should be to unveil the nature of power dynamics, outlining the nexus of this relationship and prescribing a clear alternative relationship.<sup>1</sup>

### Rationale

The assumption embraced in this work is that, in view of Africa's position in the global economy, it is unsound to think that a clear and precise understanding of African politics can be accomplished by a non-critical analysis of the ascendance to free-market economics and capitalism. It was only roughly thirty years ago that African countries, through the Organization of African Unity (OAU), had codified a radical agenda in the form of the Lagos Plan of Action, which unapologetically asserted their collective desire for self-reliance and breaking the bonds of old dependent relationships. Yet that moment in African history seems more than thirty years old since the Lagos Plan of Action could not come from the present geopolitical environment. Post-1980 African politics represents a decisive break from the language of dependency and an embracing (albeit suspiciously) of Neoliberalism.

For this reason, concern over Africa's continuing struggle in the international economy must develop outside the neoliberal box – a box that constrains political science research and real-world policy. The outgrowth of departing from the neoliberal

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<sup>1</sup> Hans Morgenthau, "The Purpose of Political Science," in *A Design for Political Science: Scope, Objectives, and Methods*, editor, James Charlesworth (1966). This is what Hans Morgenthau had in mind in his essay "The Purpose of Political Science." Morgenthau outlined the challenges for political scientists that were committed to the core function of the discipline: telling the truth about power relationships.

framework as a point of departure is that the mainstream ideological retreat to the notion of capitalism as the “only game in town” and There Is No Alternative (T.I.N.A) limits analyses of Africa and its relationship to the international economy.<sup>2</sup> If we indeed accept the notion that capitalism represents the “end of history”, then the best we can hope for is piecemeal reform through moral suasion. The advocacy for revolutionary transformation then becomes the domain of zealots or – what may soon become a part of our language – Marxist fundamentalists. With the above in mind, it becomes important, indeed critical, to understand the present international political and economic landscape from a historical perspective. The contemporary international economy is a result of the continuous drive for liberalization by international funding institutions, financial interests, and the leading techno-industrialized nations. Correspondingly, in the Post -Cold War era, the landscape of this global economy is decisively supported by free-market principles. While it may be a narrow ideological position to state, as Fukuyama has, that “there is no alternative” (which clearly buttresses the free-marketers), the fact is that the political and economic leadership in Africa has resoundingly accepted this notion. To many in and outside of Africa, concerned about Africa or not, socialism is regarded as a failed project, and those that claim the Soviet Union never really applied the Marxist interpretation of history, are viewed by non-Marxists as archaic remnants from the Cold War era. What this clearly means is that a work of this nature seemingly “spits in the wind.” It goes against the dominant paradigm that Globalization is not only spreading across the globe but

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<sup>2</sup> T.I.N.A was popularized by Francis Fukuyama in an article “The End of History” published in *The National Interest* (1989). Fukuyama argued that the collapse of the Soviet Union ushered in the preeminence of democratic capitalist development and signaled the end of ideological conflicts (i.e. communism lost and died after the Cold War).

providing the masses of people, heretofore unrecognized opportunities. In addition, the dominant paradigm is buttressed by the widely accepted belief that African countries are amongst the poorest in the world largely as a result of their own failures; some of the leaders are or were kleptocrats; and African countries have all for better or worse embraced free market principles. Yet we still do not have a proper analysis of the impact of IFC over the course of the last twenty years, which represent the ascendancy of liberal democratic capitalism (neo-liberalism). Analyzing this particular period will enable us to clearly understand the benefits or limitations of this path of development from empirical evidence and not simply ideological arguments.

#### Purpose

A cursory review of the history of Africa and the international economy during the twentieth century indicates both a protracted African struggle for development and Western European and North American commitment to political and economic dominance. Grounding the dialogue in a historical context should locate continuities or dynamic shifts in previous relations between African countries and the international community. The challenge then for us is to sort out the complex nature of relationships while articulating political, economic and cultural interests. Our concern with Africa's relationship in the international economy must then account for the diversity of African states' historical interactions in the international system; the agency of Africans themselves; the multiplicity of actors; and ultimately any continuities or breaks in previous relationships. Although much has been written about Africa's woes ad nauseam, John S. Saul and Colin Leys proclaim that "there have so far been few studies

of the logic of global capitalism as it works its way through the African continent.”<sup>3</sup>

While that remains the case, a wealth of research has been generated concerning African development, primarily in the area of political economy.

Historically, theorists in the field of political economy to varying degrees have analyzed the logic of capitalist development. This is the case with both classical political economists such as John Locke, Adam Smith, David Ricardo, and Karl Marx, John Maynard Keynes, and Joseph Schumpeter, and with more recent economists such as Robert Heilbroner, Paul Krugman, Lester Thurow, and William Tabb. While there is much divergence among these thinkers, one characteristic on which all seem to agree is that profound challenges to the stability of nations periodically arise within the capitalist system. Their analyses vary regarding the system’s ability to reassert itself and overcome periods of stagnation or decline. Notwithstanding the periodic crises, the history of capitalism has been and continues to be dynamic. Shifts, conflagrations, depressions, and crises have failed to tear it asunder.

The life force of capitalism has been and continues to be capital. The ability of states to attract and generate capital investment is a necessity for obtaining wealth and power. To wield power individuals and nations must be more than consumers. In fact, one would be correct in the assertion that the most fundamental aspect of the global economy is the struggle between states to attract and harness capital. Not only does this illustrate the reality of the contemporary economic order, but also highlights its most

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<sup>3</sup> John S. Saul and Colin Leys, “Roape & and the radical Africanist: What next?” *Review of African Political Economy* (June 1998):

fundamental problematic. To emphasize the point further, the expansion of capital and the exalted role capital movements have on the process of globalization, represents the central problematic for African countries in their struggle to develop.

While some may claim otherwise, and there is sufficient evidence that they do, the overwhelming focus on the International Funding Institutions (principally the IMF and World Bank), has been warranted to an extent. This proposal attempts to broaden the analysis beyond the International Funding Institutions and by extension their structural adjustment policies. While these international financial regimes are integral to advancing neoliberal interests, the concept of International Finance Capital suggests a more fundamental dynamic at play that influences the constraints and challenges facing African countries. The concept International Finance Capital encompasses international capital flows in the form of Foreign Direct Investment (FDI), Portfolio Investment, derivatives, trade and lending. Our primary objective then is to understand the nature of this process and its relationship to African development. In this vein, often examined issues which should be assessed critically, such as structural adjustment and level of indebtedness, are important to our analysis, but not as the primary point of departure.

These attempts to deconstruct the utility of structural adjustment policies and the stranglehold that debt has on African development are widespread. Often however, the critique does not raise more fundamental questions regarding the nature of capitalist free market development. The type of analysis being referred to here overwhelmingly focuses on structural adjustment policies, and provides space for advocates of neoliberalism to reform their language without transforming their praxis. In other words, it does not



represent analyses of foundational issues but strategic issues. Thus, the language of structural adjustment, democracy, privatization and development may become more progressive rhetorically while remaining committed to free market development. This is illustrated by the World Bank's development report for 2000, which purported to "step beyond the debates over the role of governments and markets, recognizing that they need to complement each other." The Bank does concede "the experiences of Japan, East Asia, and China make clear that it is possible for a country to have an interventionist government and still enjoy extremely rapid economic growth over a period of decades."<sup>4</sup> While not a seismic shift in their thinking, this is a departure from the Berg Report of 1981.<sup>5</sup> In essence the Bank has incorporated analyses (most likely unconsciously), of the following from Kidane Mengisteab in *Globalization and Autocentricity in Africa's Development in the 21<sup>st</sup> Century*. Mengisteab argues that "A key proposition of the present study is that an ingenious balance between global integration and autocentricity is a more promising alternative for Africa's development in the twenty-first century than is the now – predominant globalization strategy."<sup>6</sup>

Although the Bank uses terms such as "Globalization" and "Localization," which

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4 World Bank 2000, *Entering the 21st Century: World Development Report 1999/2000*, 2. We cannot overemphasize the significance of this comment. The World Bank is clearly committed to neo-liberal notions of development. The neo-liberal tradition does not stray far from the classical liberal

5 World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action* (Washington D.C.: The World Bank, 1981). The Berg Report is shorthand for the above title. The Berg Report was a part of the liberal strategy, which at that time was resurgent, in advocating export-led development and increased integration in the international economy for African countries.

6 Kidane Mengisteab, *Globalization and Autocentricity in Africa's Development in the 21st Century* (Trenton, NJ: Africa World Press, 1996), 17. The statement by the World Bank Report was that "this report views the changes that have been set in motion as contributing to – and as manifestations of – two phenomena: globalization and localization."

may on the surface seem progressive to some, it concretely represents no real departure from their philosophy. Globalization is operationalized by the Bank as integrating economies into the larger international financial network, whereas localization refers to greater democratization. While it is interesting that the language has changed, substantively the Bank initiates nothing new and their strategy is essentially a refurbished form of their traditional model. Despite the fact that our study seeks to extend beyond the increasingly common analysis of IFI's, an effort will be made to elucidate their role in Africa's development.

While the African continent contains a diverse collection of nations, which have been affected to varying degrees by international finance capital, we believe an aggregate and stratified analysis can produce useful and insightful information on Africa's development in the international political economy. Despite the fact that the importance of International Finance Capital has grown during the last twenty years, particularly in the form of Foreign Direct Investment (FDI), African countries remain in deleterious economic and social conditions.

Table 1.1 Net Private Capital Flows

Net Private Capital Flows	1970	1981	1991	2001
Sub-Saharan Africa	Na	13.1	2.7	7.9

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

Table 1.2 Net Private Portfolio Investments

Net Private Portfolio Investment	1970	1981	1991	1999	2001
Sub-Saharan Africa	0.1	-0.1	0.7	8.7	-8.8

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The tables above illustrate the overall increase in capital flows to sub-Saharan Africa and the volatile and unpredictable nature of International Finance Capital.

### Theoretical Framework

According to Chiji Akoma, the “Western intellectual tradition and culture have been shaped by the encounter with colonialism.”<sup>7</sup> The theoretical framework used here accepts Akoma’s position.

Sheldon Wolin argued in his magnum opus, *Politics and Vision*, that “of all the restraints upon the political philosopher’s freedom to speculate, none has been so powerful as the tradition of political philosophy itself. In the act of philosophizing, the theorist enters into a debate the terms of which have largely been set beforehand.”<sup>8</sup> While this characteristic certainly has its benefits, namely continuity of thought and concepts, it also has drawbacks in that assumptions made about how the world develops may be carried from one generation to the next. While they may rest on a firm foundation, these assumptions often are grounded in the explicit or implicit belief in the superiority of a particular group over other groups. This leads to the construction of a particular narrative that while including debates within the narrative, the fundamental assumptions are never broached as being problematic. This potential pitfall hinders political theories at each end of the spectrum.

One of the more lively debates in political science since the end of World War II has been over development. A myriad of schools of thought from Keynesians to post-

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<sup>7</sup> Chiji Akoma, “Black Narratives and Critical Theory: Two Responses,” in *MFS Modern Fiction Studies* 48.2 (2002): 461.

<sup>8</sup> Sheldon Wolin, *Politics and Vision: Continuity and innovation in Western Political Thought* Expanded edition (Princeton University Press, 1994), 21.

Keynesians, neoclassicists to Marxists have clashed over which theoretical descriptions and prescriptions are best suited for coming to grips with African development. Western nations were confronted with the reality that maintenance of their colonies following WWII was too costly – politically and economically – particularly in light of the momentum of nationalist movements. Modernization and development theory emerged to provide the theoretical tools to advance western interests. What emerged from these theories was not so much a scientific approach to understanding development as it was a narrative. This particular narrative situated the West as the best example of modernity and the apex of development. While not explicitly rooted in social Darwinism, implicitly, the subtext of modernization theory was that non-white societies are inferior to white (i.e. western European and North American societies). Predictably the narrative of modernization and development was quickly challenged by another narrative that purported to provide “agency” to the “Third World.” The opposing narrative represented by dependency theory, “rejected notion[s] of ‘original’ underdevelopment, ‘traditional’ society, and subsequent ‘stages of growth.’”<sup>9</sup>

Initially, development theory was influential in the “Third World” as many were willing to accept the need for capital accumulation in order to develop. However, in short order, Marxist influenced scholars began to challenge those notions as the quote from Frank above illustrates. Although dependency presented a challenge to modernization it too represents a particular narrative. Both of the narratives are limited in their value as theories for understanding development – descriptively and prescriptively.

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9 André Gunder Frank, *Latin America: underdevelopment or Revolution: Essays on the Development of Underdevelopment and the Immediate Enemy* (NY: Monthly Review Press, 1969), 7.

Peter Lewis succinctly captures a central aspect of the debate – the myriad schools of thought aside. Lewis argues that two general schools of thought, neoclassical and structuralist, “neither...adequately addresses the question of how governments develop the capacity to foster economic growth nor looks at the equally urgent issue of how development coalitions might emerge among state elites and societal groups.”<sup>10</sup> Ironically, both sides of the debate view the other as unscientific. The neoclassicists (roughly encompassing modernization and development theorists) are quick to assess structuralists (roughly encompassing underdevelopment and dependency theorists) as dogmatic, unscientific, and “largely defeated by the economic crisis of the third world.” For their part the structuralists posit arguments that the teleological approach of the neoclassicists “distracted them from paying close attention to the realities on the ground in the developing societies.”<sup>11</sup> Additionally, the structuralists pointed to the ethnocentrism of the neoclassicists, all the while ignoring their own ethnocentrism. André Gunder-Frank, an early and influential adherent of dependency theory, would later reject the Eurocentrism of both schools of thought.

This dissertation is guided by the understanding that both approaches represent particular narratives, which though useful are ultimately limited in their scope. This approach does not dismiss the rich analysis that the neoclassicists and structuralists may offer. Michael Toolan offers an explanation on narratives:

A narrative is never without contexts which both shape and come to be

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<sup>10</sup> Peter M. Lewis, “Economic Reform and Political Transition in Africa: The Quest for a Politics of Development,” *World Politics* 49.1 (1996):93.

<sup>11</sup> Claude Ake, *Social Science as Imperialism* (Ibadan, Nigeria: Ibadan University Press, 1979), 1-21.

shaped by the story that is told and heard. And I have put contexts in the plural for the obvious but often-neglected reason that the teller and addressees of the very same narrative may assume quite different grounds for that tale being told, and may individually deduce rather different 'points' from the story, grounds for its tellability, and real-world consequences. It is because any narrative inevitably has some effect on its addressees and consequences in the real world (whether or not these effects and consequences are overt or hidden) that we have to recognize that narratives are, among other things, a kind of political action. Narratives in short, carry political and ideological freight.<sup>12</sup>

In formulating a narrative, context becomes extremely important. There are two important contexts – of situation and of culture. When we examine the implications of international finance capital on African development since 1980 two grand narratives are debated with one formulating a discourse that is market-centric, views Africa's plight resulting from corrupt leaders, poor macro and micro-economic politics, and an overall failure to democratize and liberalize their economies. The other narrative constructs an alternative that locates the West as the problem, indeed, the central problem, from colonialism to neocolonialism, and imperialism. In this narrative, African countries have never been allowed to act as sovereign nations and construct strategies for development based on their own particular contexts.

While both of these narratives discuss the same phenomenon, the discourse is at opposite ends of the spectrum. Claude Ake critiqued the neoclassicists (while not using that term) for their propensity to use concepts that sought to maintain and expand western hegemony. Ake argued that African and non-western theorists need to develop concepts that deconstruct and empower African and third world countries.

Because there is a propensity for theories to be overrun by political commitments,

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12 Michael Toolan, *Narrative: A Critical Linguistic Introduction* (London: Routledge, 1988), 227.

the theoretical framework argued for here is eclectic in nature and ultimately in agreement with the general thrust of Paul Feyerabend's argument for theoretical anarchism. This approach is best suited to confront biases in research while not being beholden to a grand narrative. Feyerabend explains his view of theoretical anarchism as:

One of my motives for writing *Against Method* was to free people From the tyranny of philosophical obfuscators and abstract concepts such as "truth," "reality," or "objectivity," which narrows people's vision and ways of being in the world.<sup>13</sup>

While the approach here is informed by the historical materialist approach, it remains eclectic in nature. Various authors have discussed the teleologism and Eurocentrism of Marx as well as that of the neoclassicists. In the final analysis, the teleologism of both grand narratives, notwithstanding their ethnocentrism, is able to provide only half the picture.

It is important to take a moment to describe the eclectic theoretical aspect of this work. One understands that the Marxist conception of history has been eulogized for the past fifteen to twenty years. The *Monthly Review* remains its most pronounced advocate, although debate about the direction of Marxism has been active in the journal's recent history. I attempt to incorporate a nuanced version of historical materialism because Marx and Engels never had the opportunity to finish their work on historical materialism. A part of the unfinished effort was an understanding of the role of culture and its relationship to material reality. Engels' oft-quoted letter to Joseph Bloch addressed this very issue. This is important to keep in mind since much of the first section of the case studies will be heavily descriptive, in an attempt to place the countries in their proper

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<sup>13</sup> Paul Feyerabend, *Against Method* (London: 1975), 179-180.

historical context. Historical materialism, as noted by Engels, and accepted here, does not equate to a form of economic determinism, a label detractors of hurl at Marxists:

According to the materialist conception of history, the ultimately determining element in history is the production and reproduction of real life. More than this neither Marx nor I have ever asserted. Hence if somebody twists this into saying that the economic element is the only determining one, he transforms that proposition into a meaningless, abstract, senseless phrase. The economic situation is the basis, but the various elements of the superstructure: political forms of the class struggle and its results . . . juridical forms . . . philosophical theories, religious views . . . also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their form.<sup>14</sup>

It is clear that Marx and Engels developed their conception of historical materialism from their critique of the physiocrats, Adam Smith, David Ricardo, George Hegel, and Ludwig Feuerbach. Historical materialism is an effort to contextualize the discussion on politics, economics, religion, philosophy, class, gender (i.e. the superstructure) on the material conditions individuals and societies must contend with. Marx and Engels were writing at a moment when material reality had to be emphasized in light of the influence of Hegel's "spirit" and the "idealism" of earlier socialists.

This theoretical perspective seeks to understand the dialectical process, which undergirds the relationship between international finance capital and African countries. Following Engels, it stands to reason that IFC does not dictate the contours of the relationship from a philosophically determinist perspective, but it constitutes an important aspect, at times the most important when investigating the trajectory of African development. Therefore, the period from 1980 – 2001 is a critical historical moment

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<sup>14</sup> Friedrich Engels, "Letter to Joseph Bloch," in *The Marx-Engels Reader*, 2nd edition, ed. Robert C. Tucker (New York: W.W. Norton & Company, 1978), 760.



since it captures the phase when free market ideology was drastically beginning its most recent ascent.

The other key component to our theoretical framework is the concept of capital developed by Marx and illuminated more recently by István Mészáros in *Beyond Capital*. If we accept capital as an all-encompassing social process, which ultimately trumps the superstructure, then by extension the concept of capital is an all encompassing social as well as economic process. As stated earlier, there have been many sound analyses of the IMF, World Bank, and recently of Neoliberalism. All of these are important and extend the body of knowledge in political economy, African politics, and international relations. However, and this cannot be underemphasized, since we utilize the historical materialist conception of history, for our purposes it is important to recognize the IMF, World Bank, and neoliberal ideology as aspects of the superstructure. As a result, international finance capital constitutes the most significant concept to critique Africa's relation to the rest of the world. It is important to note that we use capital in the sense of it being a social force and not simply an economic reality. While not reifying the concept of International Finance Capital, the figure on page 17(1.1) illustrates the interrelationship between IFC, International Funding Institutions, African development, and the hegemonic ideology of Neoliberalism. The classic Marxist construction utilizes base and superstructure but this is problematic since it gives the illusion of a determinist structure. Moreover, the plethora of variables at work makes it near impossible to proclaim a "base." Figure 1 captures the essence of the relationship, although our emphasis is on International Finance Capital. Because Engels admitted that the superstructure at times is primary, it is important to

reflect the potential for multiple primary sites of engagement. The emphasis here is on International Finance Capital because of the propensity of scholars and activists to critique the role of international funding institutions, critique the lack of African development, or critique the influence of Neoliberalism on African development. The fact is all of them are constituent elements to the narrative of African development.

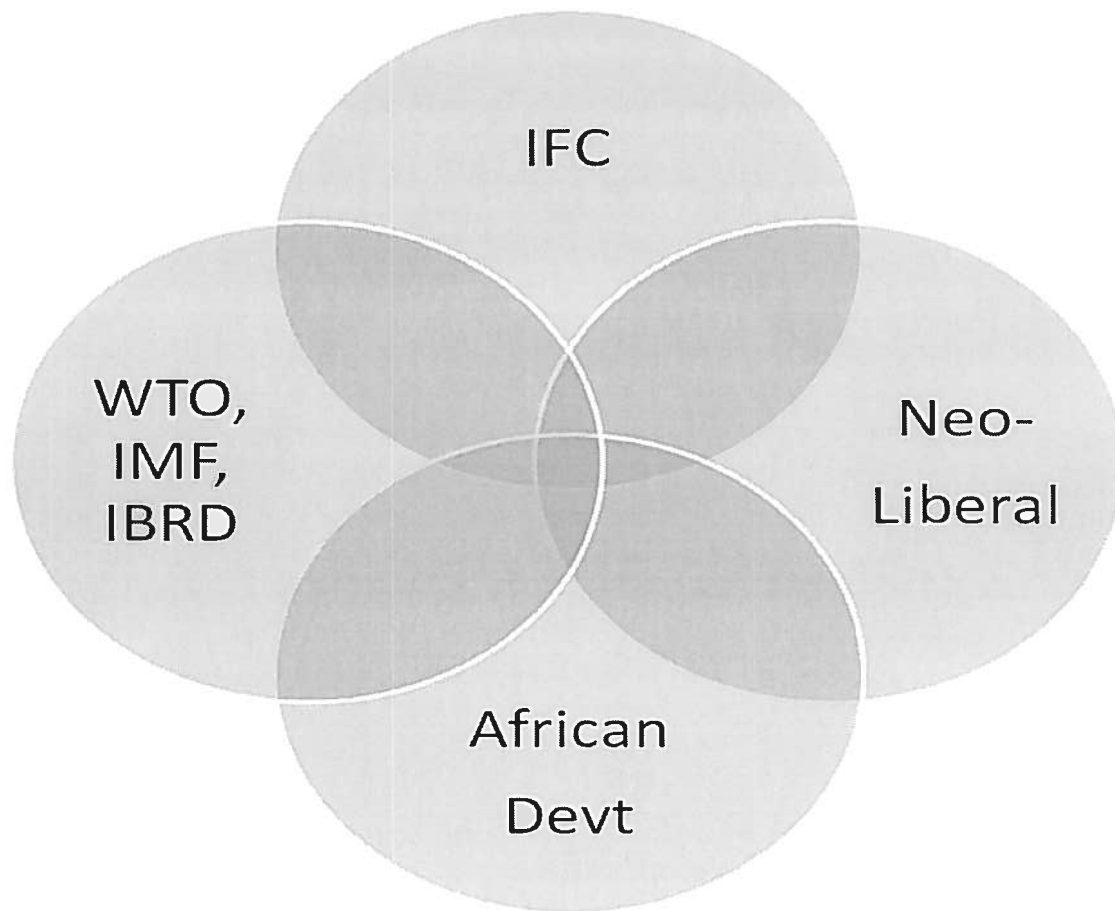


Figure 1. Interrelationship between IFC, International Funding Institutions, African development, and the hegemonic ideology of Neoliberalism.

There have been numerous works from the Marxist tradition that have analyzed the nexus between Imperialism, Finance Capital and Multinational Corporations (MNCs). While our work does not focus specifically on MNCs or imperialism, it is insightful to

examine two exemplars in this field of analysis. The work of V. I. Lenin and Harry Magdoff probably still constitute the best Marxist critiques of imperialism. In *Imperialism, The Highest Stage of Capitalism* Lenin applied Marxist philosophy to the international market. Marx never addressed the international economy in great detail; therefore the work of Lenin, on the heels of Hilferding and Bukharin,<sup>15</sup> was quickly established as a seminal work. There are a few features of capitalism that Lenin focuses on which are essential for understanding the role of MNCs. Lenin describes what may be the “most important” feature of the capitalist economy to economic concentration and the presence of monopolies:

At a certain stage of [capitalist] development, concentration itself, as it were, leads right up to monopoly; for a score or so of giant enterprises can easily arrive at an agreement, while on the other hand, the hindrance to competition, the tendency towards monopoly, arises from the very dimensions of the enterprises. This transformation of competition into monopoly is one of the most important – if not most important – phenomena of modern capitalist economy.<sup>16</sup>

Lenin exposed a central flaw not only in capitalism but the concept of a free-market economy as well. The flaw is that because of a concentration in industry and the creation of monopolies, competition, a primary component of capitalism, is undermined. Barnett and Muller examined how multinationals can fix prices relative to their best interests.<sup>17</sup> This is an issue for underdeveloped countries who argue incessantly about

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<sup>15</sup> Rudolf Hilferding, *Finance Capital: A Study in the latest Phase of Capitalist Development 1st edition* (NY: Routledge, 2006); Nikolai Bukharin, *Imperialism and World Economy* (Modern Reader PB-290) (NY: Monthly Review Press, 1973).

<sup>16</sup> V. I. Lenin, *Imperialism: The Highest Stage of Capitalism* (Peking: Foreign Language Press, 1973), 14.

<sup>17</sup> Richard J. Barnett & Ronald E. Muller, *Global Reach: The Power of the Multinational Corporations* (Simon and Schuster, 1974), ch.7.

price fixing by corporations in the leading industrialized countries. The ability to fix prices means that a cartel arrangement exists and Lenin argued that this is the moment that imperialism supplants capitalism:

Cartels come to an agreement on the conditions of sale, terms of payment, etc. They divide the market among themselves. They fix quantity of goods to be produced. They fix prices. They divide the prices among the various enterprises.<sup>18</sup>

This imperialist stage of capitalism created an environment where a limited number of people control the social means of production. They are also able to codify their capital by means of finance capital. This aspect Barnett and Muller locate as a central factor used by MNCs. They place finance capital alongside technology and marketing ideology as crucial functions of the global corporation's control.<sup>19</sup> Where Lenin located periods of industrial boom as providing immense profits for monopolists, we can locate communications technology as a boon for finance capital. The recent information technology revolution, with its attendant fast-rising growth, produced significant profits and introduced a new dynamic to the international economy. However, and this is significant for Africa, in periods of downturn the losers are small entrepreneurs who are unable to withstand the vagaries of the market and big banks purchase these businesses and add them to their holdings. Finally, Lenin discussed five features of imperialism that are important to understand for our purposes:

- (1) the creation of monopolies
- (2) merging of bank capital with industrial capital and the creation, on the basis of this "finance capital"
- (3) the export of capital as distinguished from the export of commodities

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<sup>18</sup>Lenin, 20.

<sup>19</sup>Barnett & Muller, *passim*.

acquires exceptional importance  
 (4) the formation of international monopolist capitalist combines which share the world among themselves  
 (5) the territorial division of the world among the biggest capitalist powers is completed.<sup>20</sup>

The finance capital discussed by Lenin is qualitatively different from contemporary finance capital. At the moment financial derivatives, classified by Warren Buffet as “financial weapons of mass destruction,” were not central to the world Lenin or Marx observed. Although derivatives have been around since the 19<sup>th</sup> century, they did not become a dominant component of international finance until the recent ascendance of Neoliberalism.

Harry Magdoff, in his works *The Age of Imperialism* and *Imperialism: From the Colonial Age to the Present*, provides an excellent analysis of multinational corporations and their role in the changing global environment. Magdoff in essence picked up where Lenin left off, being afforded the opportunity to analyze the increased involvement of MNCs. Magdoff highlights the transition from trade to investments. He argues that investments are increasingly moving abroad where they are fixed forever (in terms of plants and equipment) until the natural resources of the host country are finally exhausted.<sup>21</sup> The main objective of imperialism is maintaining and expanding an open trading and investment environment for global corporations. At the time, Magdoff viewed the arrival of MNCs as suggestive of a considerable structural change in the world economy.

In addition to the work of Magdoff and Lenin, Kwame Nkrumah had much to say

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<sup>20</sup> Lenin, 106.

<sup>21</sup> Harry Magdoff, *The Age of Imperialism* (New York: Monthly Review Press, 1969), 10.

about the impact of “imperialist finance” on African development. What Nkrumah did, as others before him, was to collapse the notion of Direct Foreign Investment (Foreign Direct Investment) with finance capital. The two are closely interrelated; however, portfolio investment and FDI are both subsets of IFC. Robert Gilpin provides significant clarity:

The international financial market has become a prominent feature of the global economy. The volume of foreign exchange trading in the late 1990s has been approximately \$1.5 trillion per day, an eightfold increase since 1986; by contrast, the global volume of exports (goods and services) for all of 1997 was only \$6.6 trillion, or \$25 billion per day! In addition, the amount of investment capital seeking higher returns has grown enormously, by the mid – 1990s, mutual funds, pension funds, and the like totaled \$20 trillion, ten times the 1980 amount. Moreover, the significance of these huge investments is increasingly leveraged; that is, investments are made with borrowed funds. Finally, derivatives (repackaged securities and other financial assets) play an important role in international finance. International financial transactions, valued in 1997 at \$360 trillion, which is far larger than the worth of the entire global economy, have contributed to financial complexity and, many believe, to international financial instability.<sup>22</sup>

The global economy as it is presently situated is a different problematic from that which Nkrumah, Lenin, or even Magdoff observed. First and foremost FDI no longer reigns supreme. Clearly, to some imperialism is still an issue as well as the over-influence of MNCs. But the focus on MNCs, particularly as a threat to the nation state, which occupied center stage since the 1960s seems a bit misplaced in today’s global economy. While MNCs seek to harness capital our attempt is to understand the seeming netherworld of capital, specifically IFC. More to the point, IFC as it relates to the

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22 Robert Gilpin, *The Challenge of the Global Economy: The World Economy in the 21st Century* (Princeton: Princeton University Press, 2000), 141. While Gilpin does not use this term, what he describes is essentially hyper-alienation. His description points to the increasing disjointment between actual labor and those that make profits. Thus the market is determined by derivatives and the like and not actual labor.

dominant approach in theory and in practice - Neoliberalism. While this work does not believe that it provides the best prescriptive utility for African development, we must nonetheless take a moment to critique the major work on Neoliberalism.

International politics as it exists in our world is a byproduct of Western hegemony: theoretically at the level of international political philosophy and historically by the expansion of European culture. At no point has there been a unification of political philosophy. The major preoccupation of western political science, in this case the sub-field of international politics, has been the debate waged continuously concerning the utility of realist/neorealist philosophy and liberal/neoliberal philosophy. While these philosophies diverge on the role of the state, notions of power, and constraints of anarchy, they converge concerning the legitimization of the international political system. In light of the globalization of world affairs, the discussion and debates that center on the international political system have particular relevance for African politics. The level of marginalization that takes place materially and theoretically enlightens us about Africa's role in international politics. Efforts must be taken to substantiate or disclaim Western hegemonic discourse and practice. Presumably critiques of the realist/neorealist-liberal/neoliberal debate must be undertaken to satisfy this effort.

*After Hegemony: Cooperation and Discord in the World Political Economy* by Robert Keohane presents a neoliberal perspective on the growing interdependence of the world economy. Although neoliberalism is viewed as the antithesis of neorealism both ideologies share fundamental similarities. Keohane attempts to construct a balance between the realist and idealist notion of international politics. While neorealism and

neoliberalism share the view of an anarchic international arena, the constraint that this imposes on the state represents a significant departure between the two approaches. Keohane, a neoliberal, analyzes cooperation and discord with the assumption that sovereign nations have mutual interests. This supposition is the antithesis of realism's rational egoism that assumes that nations undauntedly seek to codify their self-interest; thus, Keohane focuses on international institutions and the ability of these institutions to provide the culture of cooperation.

While the title leads one to believe that the analysis concerns the world political economy, Keohane explicitly advances that his analysis is concerned with *advanced market economies*. Keohane reasons that the advanced economies are “relatively similar” resulting in high levels of interdependence that place their respective nations on friendly ground, a consequence which is less prevalent concerning relations with “less developed countries.”<sup>23</sup> Thus, from our perspective the continued peripheralization of Africa is understood as a necessary consequence of Keohane’s analytic method, which consequently raises questions concerning the viability of the neoliberal philosophy for analyzing and understanding Africa’s role in the world political economy.

Keohane outlines the purpose of his work in part one of *After Hegemony* - Questions and concepts. Keohane states: “This book is about how cooperation has been, and can be, organized in the world political economy when common interests exist. It does not concentrate on the question of how fundamental common interests can be

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<sup>23</sup>Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, New Jersey: Princeton University Press, 1984), 6. His rationale is certainly influenced by Kant’s ‘Zones of Peace.’



created among states.”<sup>24</sup> In this framework familiarity produces interdependence (cooperation). Recognizing that a world economy does exist, Keohane posits that a fundamental dilemma is to “organize cooperation without hegemony.”<sup>25</sup> The liberal institutionalists (Keohane) believe in the necessity of hegemony to achieve cooperation. The world economy consists of hundreds of ostensibly autonomous nations, which are not subordinate to any international governing body. Thus, there are no “authoritative allocators of resources.” Nations left to seek their own interest, without a dominant actor influencing cooperation, may persist in an anarchic environment. Keohane’s unabashed focus on advanced industrial economies clearly illuminates that neoliberals and their approach, are extremely limited on putting forth solutions to Africa’s problems. To the contrary of a framework that illuminates African interests, the solution lies within the context of neoliberal development. Neoliberalism is used to maintain and expand the existing order and makes no pretense that the order is exploitive or flawed in any manner.

## Conclusion

In conclusion, when we state that we are incorporating a nuanced version of historical materialism, precisely this means that the role of culture has to be accounted for in international relationships. This is a characteristic, which Marx and Engels failed to develop in any significant manner. Not because they underestimated or denied its significance – they simply did not live long enough. Many theorists point to Gramsci and his emphasis on culture as filling this void; however, Amilcar Cabral’s discussion on

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<sup>24</sup>Ibid.

<sup>25</sup>Ibid, 10.

culture and national liberation, Cedric Robinson's critique of Marxism<sup>26</sup> and Edward Said's enlightening *Culture and Imperialism* are some of the better recent works on the significance of culture. Said's work in particular examines the "ideological formations" which support western cultures' imperialist leanings while undermining non-western cultures' value. More to the point, neoliberalism is the ideological formation that supports IFC. When we analyze the impact of IFC, we are examining a western construct, which implicitly and explicitly devalues non-western constructs. More to the point, classifications of bourgeoisie vs. proletariat; core vs. periphery; and developed vs. underdeveloped provide theoretical utility but are only enhanced by adding the all-important cultural element. Gunder-Frank, at one time the most notable advocate of Dependency theory, rejected the Eurocentricism of Marx, and by extension the dependency school.

For their part, the neoliberals are incapable of raising certain questions because of their desire to interrogate cooperation. In other words, the foundation is accepted as legitimate. Legitimacy in this sense involves the understanding that the international order is anarchic. The method of the neorealists is not to assess the role of capital or finance capital but cooperation between states. Their assumption is that states ultimately are able to cooperate based on mutual gain.<sup>27</sup> This assumption implicitly dismisses the struggle for power by African and other "Third World" countries by granting legitimacy

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<sup>26</sup>Cedric Robinson, *Black Marxism: The Making of the Black Radical Tradition* (NC: The University of North Carolina Press, 2000).

<sup>27</sup>Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown and Company, 1977); David Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (NY: Columbia University Press, 1993).

to the world system. Therefore, once the assumption is made that the system is worth maintaining, how does one engage groups that argue against the legitimacy of the system?

All is not lost however, for the neoliberals still have something to offer.

Understanding cooperation remains an important task. North-South and South-South cooperation are certainly important for understanding and developing viable strategies for development. The neoliberal propensity to utilize Game Theory may prove useful for understanding why African nations participate in institutions that many argue are weighted against their interests.

The case studies reveal that standard theoretical approaches can illuminate some of the challenges but ultimately they fall short in capturing the nuance needed for understanding African development. Botswana was selected because of its stable history as Africa's longest-running democratic regimes. Botswana, in the narrative of the neoclassicists, has liberalized, democratized, privatized, and created a safe and productive environment to attract capital. Botswana has experienced consistent economic growth since independence yet the country remains underdeveloped. Theorists more likely to utilize World Systems theory may see Botswana's success as the result of a relationship between elites in Botswana and elites in the west. Hence, the failure to alleviate the plight of the poor in Botswana and decrease the gap between the wealthy and poor validate Marxist-influenced theories. Although advocates of free trade argue that the Botswana case is not an example of the market not working for Botswana. The problem of income and wealth inequality is the purview of policymakers and not a result of deeper

integration into the free-market.

Tanzania, while one of the most impoverished states, is an example of a country that transformed from socialist to market-led development. It offers an interesting example of a country attempting to embrace the order of the day while retaining its commitment to education, health care, and the like. Kenya is an interesting counter to Tanzania, not simply because of its proximity, but for its historical embrace of market-led development and eschewing of socialism and ideologies of that ilk. Nigeria, and this will shock no one, is Africa's most important economy. Nigeria is important because of its potential, strategic resources, and the raw size of its economy. This is all certainly notwithstanding Nigeria's reputation as Africa's, indeed one of the world's most corrupt states – an impossible designation to measure.

#### Statement of the Problem

The development of Africa has been a major concern (to say the least) for Africans, continental and diasporan, since the modern independence movements of the post-World War II period.<sup>28</sup> This concern has inspired an assortment of debates surrounding which path of development is most applicable and beneficial to Africans. Political leaders and activists have viewed African socialism, scientific socialism, capitalism, and various attempts at mixed economy as “the solution” at one point or another. The stated reasons for their failure to improve African's socioeconomic condition are debatable for some, but for many the answer is clear and not open to debate. Capitalism and its handmaiden, the free-market economy, is the only viable solution.

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<sup>28</sup>This statement does not discount activism prior to “independence” but is a reflection of the historically recent discussion concerning development.

The force of this ideology as it weaves its way through the globe should be evident to all observers. The vast majority of states have accepted the reality of globalization, albeit if not with open arms. The presumption proponents of free-market economics make is that this is the only way for nations to develop and consumers to reap the most benefits. Furthermore, adherents of the free-market argue that the technological advancement created by the competition a free market engenders ultimately benefits the consumer and those creative enough to continue to develop new technologies. Although detractors point to increasing inequality and unemployment that often accompanies increased openness (often attributed to the volatility of market forces), supporters counter and argue that democratic regimes are best suited to rectify any shortcomings. It seems that in the minds of many, the very mention of democracy is enough to ensure equity and stave off the more rapacious aspects of capitalism and free-market development.

International Finance Capital has been a rapidly increasing force in the global economy since 1971, the year of the first oil crisis. With the exception of the years following 1979, the year of the second oil shock, up to the introduction of the Brady Plan, IFC was the main impetus for the further integration of African and other underdeveloped economies into the global market.<sup>29</sup> While the proponents of free-market economics insist on the merits of increased IFC - better competition, better prices for consumers, technology transfer, and access to new markets – the impact is often volatile, particularly when the previous inflow of capital degenerates into an outflow. This undeniably affects underdeveloped nations to a greater extent than industrialized nations; primarily because

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<sup>29</sup>Pierre-Richard Agénor and Peter Montiel, *Development Macroeconomics 2nd ed.* (Princeton, NJ: Princeton University Press, 1999), 575.

of the fragile nature of their economies. Because African countries have been preoccupied with distancing themselves from their colonial past and embarking on a rebirth of sorts, it becomes imperative that we understand the period 1980-2001. As a sign of where we are, African governments have adopted the New Partnership for Africa's Development (NEPAD) and the African Growth and Opportunity Act (AGOA), which seeks to attract enhanced investment opportunities for international capital and deepen Africa's integration in the world economy. The G8 has given its blessing and seem excited about the direction of this plan for the future development of its relationship with African countries.

The Cold War era receives a lot of attention since successive administrations were guided by an imperative designed to contain communism at all costs, disregarding whether a regime was democratic or not. This focus ostensible changed with the end of the Cold War (at least a thawing of the tensions) and the Clinton administration sought to shift the terms of U.S. – Africa policy. In this vein, the Clinton administration advocated democratization, the dev

policy for sub-Saharan Africa while also extending benefits to the Caribbean basin. Initially the bill, dubbed “Nafta for Africa” by some, passed the house but died in the Senate in 1999. President Clinton pushed for the reconsideration of the legislation, eventually leading to its passage into law on May 18, 2000. The full title of the Act is “An act to authorize a new trade and investment policy for sub-Sahara Africa, expand trade benefits to the countries in the Caribbean Basin, renew the generalized system of preferences, and reauthorize the trade adjustment assistance programs.” It is generally referred to as the Africa Growth and Opportunity Act (AGOA).

There was a lot of consternation concerning this act because the principle advocates derived from the American oil and multinational corporate interests. The most prominent corporate supporters were Chevron, Mobil, Texaco, and AIG. This group formed a coalition “The Africa Growth and Opportunity Act Coalition, Inc” which was led by Chester Crocker, former secretary of state for the Reagan Administration and architect of “constructive engagement” with the apartheid regime. Crocker argues that during this time:

The Clinton years were years of rhetorical activism. I don't think anyone would argue with the notion that this was the most African-oriented at the rhetorical level of any administration. Some credit needs to be given on commercial diplomacy and trade. The late Commerce Secretary Ron Brown helped put Africa on the map and so did the President, in the commercial areas. My problem with that eight years is that I think we kind of avoided our responsibilities on the security and conflict issues. So, it's a mixed legacy that this administration now faces.<sup>31</sup>

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31 Charles Cobb Jr., *All Africa.com*. Retrieved October 22, 2008, from All Africa.com: <http://allafrica.com/stories/200106260229.html>

By the time George W. Bush became the president of the United States, there was already a few initiatives in place focusing on African development. The New Partnership for Africa's Development in concert with Bill Clinton's Comprehensive Trade and Development Program for Africa were the most recent attempts at the time of policy choices for African development. The signatories of NEPAD are clear that the predicament Africa finds itself in is a result of numerous factors and that globalization does not guarantee success. The primary factors pointed to in the NEPAD are unfavorable terms of trade and poor governance. We should make no mistake in understanding that poor governance, rightly or wrongly, has been emphasized as the primary factor prohibiting African development. In accepting this argument, and embracing all of its constituent elements, the framers of the NEPAD believe that incorporating "good governance, entrenchment of democracy and sound economic policy-making" make for the best possible engagement of the process of globalization."<sup>32</sup> What is interesting is the conscious decision to not challenge or resist the nature of the international economy but rather to argue for increased involvement. The NEPAD states "The new long-term vision will require massive and heavy investment to bridge existing gaps."<sup>33</sup> The NEPAD was applauded by European, American, and International Funding Institutions officials as the best African proposal for development. This should come as no surprise since the NEPAD embraced the Neoliberal trading environment. In fact, a

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32 Kempe Ronald Hope, "From Crisis to Renewal: Towards a Successful Implementation of the New Partnership for Africa's Development," *African Affairs* (2002):101.

33 NEPAD, *The New Partnership For Africa's Development*. Retrieved September 9, 2002, from United Nations Economic Commission for Africa:  
[http://uneca.org/eca\\_resources/Conference\\_Reports\\_and\\_Other-Documents/nepad/1](http://uneca.org/eca_resources/Conference_Reports_and_Other-Documents/nepad/1)



part of the NEPAD document comes from the “Millennium Partnership for the African Recovery Programme: A Market Access Action Plan for Africa” that was published by the department of trade and industry in South Africa during May 2001. The NEPAD is striking for its refurbished and retread ideas, which its framers pass off as revolutionary or symbolic of an African renaissance, an idea pushed by Thabo Mbeki. While one could take my word for it, a group of African scholars and activists met in Accra, Ghana on April 23-26, 2002 to discuss Africa’s development challenges. Their assessment of the NEPAD is summed up in their document as follows:

We concluded that, while many of its stated goals may be well-intentioned, the development vision and economic measures that it canvases for the realization of these goals are flawed. As a result, NEPAD will not contribute to addressing the developmental problems . . . On the contrary, it will reinforce the hostile external environment and the internal weaknesses that constitute the major obstacles to Africa’s development. Indeed, in certain areas like debt, NEPAD steps back from international goals that have been won through global mobilization and struggle.<sup>34</sup>

In addition to the above initiatives, Vice-President Dick Cheney produced a very influential “Cheney Report” in 2000. Daniel Volman argued that the increased attention towards Africa by the Bush Administration was largely a byproduct of this report, but he seems to underestimate the focus on Africa before 2000. Volman states that:

The Cheney Report states, African countries provided 14 percent of total U.S. oil imports...but by 2015, according to the U.S. Central Intelligence Agency, West Africa alone will supply 25 percent of America’s imported oil. Of particular significance is the talk that many West African streams are lighter, higher-valued crude oils that are tailor-made for U.S. East Coast markets and are able to offer an alternative to Middle Eastern supply

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<sup>34</sup>Africa Action, *Africa: Accra Declaration on Development*. Retrieved October 1, 2002, from Africa Action: <http://www.africaaction.org/docs02/accr0204.htm>

sources.<sup>35</sup>

The Bush-Cheney focus on Africa would be in the context of strategic national security interests, which for Volman and others was completely unprecedented, hence marking a shift from Clinton administration policy towards Africa. September 11, 2001 would serve only to further reinforce the G.W. Bush administration's outlook on Africa as a source of national security interests. Specifically as an avenue to find alternatives to Middle Eastern oil. Not long after 9/11 the Institute for Advanced Strategic and Political Studies held a symposium "African Oil: A Priority for U.S. National Security and African Development." Thus, countries such as Nigeria, Equatorial Guinea, Gabon and Angola became very important to U.S. strategic interests. Coupled with the U.S. "war against terror," and billions of dollars are being invested in the oil and militarization of oil producing regions. Very little concern has been made concerning democratization or good governance. Padraig Carmody succinctly captures these developments:

There are now direct weekly flights from Texas to Equatorial Guinea, which in 2003 had the world's fastest-growing economy. It has a population of half a million people, but U.S. oil firms have invested \$5 billion there. According to Human Rights Watch, continued human-rights abuses have not deterred U.S. investment, and the country is geostrategically attractive to the U.S. because it is a non-muslim country and is not a member of OPEC. The size of its oil revenues is a state secret, but in the first year of its contract with ExxonMobil Equatorial Guinea got to keep only 12 percent of oil revenues.<sup>36</sup>

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<sup>35</sup>Daniel Volman, "The Bush Administration and African Oil: The Security Implications of US Energy Policy," *ROAPE No. 98* (December 2003): 573-584.

<sup>36</sup>P. Carmody, "Transforming Globalization and Security: Africa and America Post-9/11," *Africa Today* 52.1 (2005): 97-120.

NEPAD has come into existence at a time when African countries are faced with a variety of issues critical to their development in the twenty-first century. Among these issues are the impact of international financial institutions on African development; the continued legacy of colonialism in Africa; the nature of African development (what path should countries pursue?); and African countries' links with international finance capital. Each of the above issues is significant for understanding the politics of contemporary African states in the global economy. The first two issues above had a profound impact on twentieth-century African and global politics. In short, much of the twentieth century from Africa's perspective was a struggle against colonialism. After finally throwing off the fetters of colonialism, African countries had to operate in a changing international environment where international financial institutions and multinational corporations were, by the 1970s, wielding a tremendous amount of influence. Thus, from our perspective, it is impossible to gain a clear understanding of African politics without accounting for the dialectic between Africa's pursuit of development balanced by the interests of her former colonizers and the contemporary role of international finance capital. The third issue, concerning the path of development, continues to be significant, even in light of the dominance of neoliberal development. Rather than solving the problematic of development, neoliberalism raises new questions concerning whose interests are being met. Finally, international finance capital is more influential than ever and the ability of African countries to negotiate their relationship to IFC and benefit from that relationship is vital for understanding African development.

Hypothesis

Before stating the hypothesis, several observations should first be presented concerning widely held assumptions about African development. The first widely held assumption is that African economies are not diversified and are highly susceptible to the vagaries of the market. Many African economies are monocropic or monomineral (meaning they are dominated by one particular industry) which leads to market-oriented dominance. Second, an extension of the first assumption, African economies' high agricultural reliance leads to their being extra-dependent on the weather for the strength of their exports. Third, a common assumption based on poor governance, poor infrastructure, and a lack of resources desired by the international investment community - African economies attract very little IFC. Fourth, the major challenges impeding African development are corruption, famine, HIV/Aids, and debt. Finally, the sociopolitical environment for attracting increased IFC is extremely poor.

While all of the assumptions have grounds for validity, it is the last assertion that is the focus of this dissertation. We argue that between 1980 and 2001 IFC going to Africa increased and this had an overall negative impact on the sociopolitical and socioeconomic environment. This impact would be substantiated by finding an increase in IFC and subsequent decrease in health care, equity, literacy, and environmental indices. It is expected that a rise in IFC will also result in a rise of GNP.<sup>37</sup> The second hypothesis focuses on democracy. Democracy as discussed in most publications is simply a set of procedures for choosing the senior personnel of government. We adhere

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<sup>37</sup>Historically, successful economies were judged by their GNP or GDP. This has changed over the past 15 years as other indicators gain in importance. No serious scholar would assert that development can solely be measured on the basis of a nation's GNP or GDP today.

to the distinction between liberal and social democracy<sup>38</sup> with the belief that an environment open to investment may equate to liberal democracy but not social democracy. Therefore, we expect our case studies to show that where there is an increase in IFC there is also an increase in aspects of liberal democracy (i.e. free, fair, and regular elections). Finally, incorporating the notion of base and superstructure from Marx and Engels, we expect to find a transformation in the superstructure that reflects a regime of IFC.<sup>39</sup> The transformation taking the form of more openness (i.e. decrease in tariffs and subsidies), rhetoric in support of the neoliberal agenda, and privatization.

#### Research Questions

1. Has the pace of development accelerated in Africa between 1980 and 2001? This question is critical since the proposition put forth by proponents of the international economy is that integration in the global economy accelerates the process of development. Integration in the global economy involves decreasing trade barriers and quotas, an increase in foreign technology, involvement in international regimes designed to create and maintain a liberal international order, and an increase in the level of privatization within a given country. Development is the combination of an increase in GNP, GDP, and social resources. Thus, an improvement in education, health, housing, transportation, and infrastructure would be indicative of development.

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<sup>38</sup>Liberal democracy deals more with the standard operating procedures of a democracy, primarily free, fair, and regular elections, and freedom of speech, press, and assembly. Social democracy is more concerned with the equitable distribution of wealth and is more apt to have broad-based redistributive policies.

<sup>39</sup>Robert C. Tucker, ed. *The Marx-Engels Reader*, 2nd edition, (New York: W.W. Norton & Company, 1978), passim.

2. Does a correlation exist between the external debt of African countries and increased integration into the global economy? If there has been an increase of international finance capital in Africa this question seeks to determine the historical context for the increase. It is assumed that African countries following the second oil shock were left little choice but to turn to the IFIs for assistance in repaying their external debts. This assistance in turn paved the way for increased international finance capital in Africa.

3. Why were African nations faced with a debt crisis and what was the role of private international banks? This question is concerned with the origin of the debt crisis. My sense is that the oil shocks created balance of payment deficits, which led to external debt. However, claims have been made that African nations are faced with large debt because of poor economic policies, mismanagement of resources, and corrupt politicians. The involvement of international banks is critical for understanding the interaction between international credit and African dependency. Specifically, I am concerned with terms of repayment and African countries ability to meet those terms.

4. How does integration in the international political economy impact Africa's agricultural industry and small farmers? The majorities of Africans are farmers and rely on farming for subsistence or the state relies on agriculture for trade. It is critical to understand the dialectical relationship between the IFC and Africa's agricultural sector, particularly in light of the United States and European Union (EU) insistence on subsidizing aspects of its agricultural industry.

#### Context

In order to successfully place our discussion in its proper context, we must

progress from the simplistic notion that an understanding of contemporary events results from analysis of past events. However, this is not as simple as it sounds since different theorists understandably hold opposing views on where to begin or on what period most captures or defines the problematic in question. In this vein, two different approaches for examining African development are offered by the World Systems theorists that view the “long fifteenth-century” as a decisive point in developing a Modern World System and those theorists that view the carving up of Africa by the great powers of Europe in 1884-1885 as primary when examining African development or underdevelopment.

World systems theorists generally view Africa’s integration in the global economy as beginning in the seventeenth century. They view the involvement of African labor (i.e. slave labor) as being different from incorporating the nation in the world system. The 17<sup>th</sup> century is the period when Dutch colonizers established a way-station at the Cape and began to expand inland, thereby planting the seeds for a protracted unequal relationship. Others view the Berlin Conference of 1884 and subsequent continent-wide colonization as the crucial point of Africa’s entry into in the global economy. The process of monetisation, which as Claude Ake points out, was necessary in establishing a new economy and dismantling an indigenous economic base, was introduced during the colonial period.<sup>40</sup> While both perspectives offer some putative value, the argument put forth here is that African integration in the global economy began in the fifteenth century. Once the Portuguese seized the Moroccan port of Ceuta in 1415 it signaled the demise of indigenous African independence. African leaders from then on

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40 Claude Ake, *A Political Economy of Africa* (England: Longman Publishers, 1981), passim.

had increasingly to account for the interests of outsiders; indeed African leaders had to be concerned with foreign influence. This perspective regards African labor as essential to the development of the modern capital system rather than simply a marginal component at this point in world history. An understanding of its significance is critical for two reasons:

- 1) The human labor wrested from Africa between the fifteenth and nineteenth centuries began the depletion of any nation's most essential resource – people. This depletion of human production incalculably stunted the development of Africa.
- 2) The exported African labor provided an essential component for Spanish, French, Portuguese, Dutch, Caribbean, and North American economic development. The trajectory and likelihood of their global ascendancy would have been considerably hindered without African labor.

With the above as a precursor, this study is historically grounded in the following framework, which encompasses five stages:

Stage 1 – The introduction of African labor in the international division of labor and the expansion of Europe (15<sup>th</sup> century): Wallerstein in his magnum opus *The Modern World System*, does not locate the 15<sup>th</sup> century as the introduction of Africa into the international division of labor. However, we argue that it is quite clear that the 15<sup>th</sup> century represents the introduction of African labor into the international division of labor. African's in the 15<sup>th</sup> century are beginning to be sent to Europe as laborers.

Stage 2 - Increased European penetration into Africa (17<sup>th</sup> century): European penetration became sharper, extending deeper into Africa and creating the Trans-Atlantic Slave Trade.

Stage 3 - Continental partition by the great powers of Europe (1884-85): With most countries abolishing the slave trade, European nations fashioned a new form



of domination – colonialism. The Berlin Conference created agreed upon boundaries for European colonial nations.

Stage 4 – Nominal or flag independence/ Ideological and Economic dependence (1950s/1960s): The stage of great expectations as Africans attempted to throw off the fetters of colonialism and ostensibly assert their newfound sovereignty.

Stage 5 – Incorporation of Neoliberal prescriptions (1980 – present): The ascendance of neoliberalism and frontal attack on Keynesianism, protectionism, and all things resembling constraints upon the free market.

Stage 5 encompasses the age of global finance. Bello, Bullard, and Malhotra argue that a liberalization of financial flows resulted from the creation of a Eurocurrency market, the accumulation of petrodollars in industrial countries, and the liberalization and trade and capital accounts. As a consequence of these actions, they argue that three discernible traits accompanied financial liberalization. The first trait resulted from commercial banks withdrawing from international lending and the corresponding rise investment banks, mutual, hedge, and pension funds. The second trait was the rise of securities as a means of transporting capital as opposed to foreign direct investment or lending. The third trait, closely related to the first two, was the ascendance of arbitrage and derivatives.<sup>41</sup>

This perspective should capture the key nodal points in Africa's relationship with the European dominated international order. The fifteenth and sixteenth centuries were a period of sharp competition by European powers, specifically the Dutch, Portuguese,

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41 Walden Bello, Nicola Bullard, & Kamal Malhatra, *Global Finance: New Thinking on Regulating Speculative Capital Markets* (London: Zed Books, 2000), 4-6.

English, and Spanish. Occupation of the Caribbean and Latin America typified the modus operandi of the major European powers at that historical moment. The end of the sixteenth century and the beginning of the seventeenth were marked by Dutch establishment of dominance in coastal Senegambia and Benin. Although their power would wane in the late seventeenth century, European trading corporations would find this period as a boon to their business:

The demand for black labour presented Western Europe with an unprecedented task at a time when radical economic and political changes were taking place. In the second half of the seventeenth century the decline of Spain and Portugal became increasingly evident. Holland, then at the peak of its power, began to be ousted by France and England whose economies were developing rapidly. From the end of the seventeenth century these two countries were exercising ever-increasing influence in Africa, while the Spaniards and even the Dutch were playing no more than marginal roles. Meanwhile, Portuguese success in Angola allowed them to retain an advantageous position in the slave trade.<sup>42</sup>

This process deepened African involvement in the ever-expanding orbit of European imperialism. While this discussion does not account for Africa's contemporary predicament, it does illuminate the historical context of this troubling relationship.

The demand for efficient and cheap bulk shipment of heavy products throughout the world, the new metal steamship, which made it possible, and rapid communication (transatlantic cable service began in 1866) set the stage for a commercial revolution. This commercial revolution was financed by the simultaneous growth of international banking and the creation of a 'single multilateral system of international payments.' A world market, governed by world prices, emerged for the first time.<sup>43</sup>

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42B.A. Ogot, ed., *General History of Africa: V Africa from the Sixteenth to the Eighteenth Century* (California: Unesco, 1999), 9.

43Ibid., 33. Linked to this superordinate-subordinate relationship was the construction of a narrative which situated African's and their culture as backward. This of course was used to justify European exploitation masked in the veneer of civilization. While the specifics of the relationship have changed, the narrative remains eerily similar in the language of development.

This world market was dominated by the concentration of power in the hands of giant corporations, with the subsequent internationalization of capital. These corporations, inevitably working with banks, consolidated their power to stretch across the globe, linking the majority of the world's population in an unequal dependent relationship. They were able to exploit their "comparative advantage" and compel non-European nations into exporting their resources for consumption in the core areas of the international economy. Certainly, over-consumption is a crucial aspect of imperialism that acutely affects the relationship between the haves and have not's. Rostow's highest stage, the stage of high mass-consumption, represents the height of development. It also represents the stage characterized by Western achievement.

In an attempt to provide a critical understanding of this phenomenon of over-consumption, Samir Amin's analysis in *Accumulation on a World Scale* provides a useful tool for deconstructing this connection. The fundamental problem Amin argues is one between the "developed" world (the center) and the "underdeveloped world (the periphery). The periphery does not lack in surplus but in finding ways to manipulate their surplus.<sup>44</sup> This surplus is unproductive, wasteful or exported. These problems develop from the economic and social formation of the periphery and how the underdeveloped states are integrated into the capitalist world-economy.<sup>45</sup> Amin refers to an important stage in the development of the capitalist world-economy as the period of the industrial

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<sup>44</sup>David Korten, *When Corporations Rule the World* (Berrett-Koehler publishers, 2001) passim.

<sup>45</sup>Samir Amin, *Accumulation on a World Scale* (Monthly Review Press, 1978), 9-10.



revolution. This period marks the ‘flowering’ of the capitalist mode of production, where international specialization (comparative advantage) among industrial (core) and agricultural (periphery) nations was established. During this period the peripheries’ resources were exported to the highly industrialized nations for consumption, while the profits were often expatriated by MNCs.

While there are those that argue that Amin’s (and others that share this view) argument is flawed and that things have indeed changed, African countries continue to be among the poorest countries in the world. They are poor because of poor policies and corruption; a harsh international environment; or a combination of both. Whichever logic one subscribes, any account of Africa’s integration in the world economy must analyze the colonial experience and its influence on the composition of African economies.

The post-colonial challenges of African economies are often assessed by neglecting or minimizing the impact of colonization. This is the case even though the colonization of African countries established the role of Africa in the international economy. It is this relatively recent history of Africa, which reflects a subordinated and exploited continent. A great deal of twentieth century African politics was shaped by the legacy of colonialism and neocolonialism. Colonialism shaped the political and economic foundations of the recent “independent” African countries. Colonialism also placed African countries in a state of economic dependence. African countries, rather than operating as sovereign actors in the international political and economic system, existed for the development of the core European states. Walter Rodney provided a succinct overview of this phenomenon:

Colonial Africa fell within that part of the international capitalist economy from which surplus was drawn to feed the metropolitan sector... Colonialism was not merely a system of exploitation, but one whose essential purpose was to repatriate the profits to the so-called mother country . . . It meant the development of Europe as part of the same dialectical process in which Africa was underdeveloped.<sup>46</sup>

There remains a need to analyze whether this phenomenon has subsided or continues in other varieties. The authors of the UNESCO series on African history reinforce the claims of Rodney by arguing that:

The introduction of currency and with it banking activities and the tremendous expansion in the volume of trade between colonial Africa and Europe in turn led to the total integration of the economy of Africa into that of the world in general and into that of the capitalist economy of the colonial powers in particular. The years after 1935 merely deepened this link and not even *independence* has fundamentally altered this relationship.<sup>47</sup>

Generally, it is agreed that colonialism was destructive to the development of Africa. However, there remain studies such as the Hoover Institution's *Colonialism in Africa 1870-1960* that focuses on the purported benefits of colonialism. The UNESCO volume cited above also points out particular benefits from the colonial era, such as relative peace (in relation to the period before colonialism), transfer of technology, Pan-African consciousness, industrial development primarily in the form of transportation and integration into the global economy. However, as pointed out by the author, the negative

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46Walter Rodney, *How Europe Underdeveloped Africa* (Washington, D.C.: Howard University Press, 1982), 149. Often quoted now, this work cannot be underestimated for its uniqueness at the time. Most underdevelopment theorists were discussing Latin American countries. This was the first major work that analyzed Africa in such a fashion.

47A.Adu Boahen, "Colonialism in Africa: Its impact and significance," in *General History of Africa: VII Africa under Colonial Domination 1880-1935* ed. A.Adu Boahen (California: Unesco, 1990), 331.

impact outweighs the so-called benefits. In fact, the positive impact of colonialism is surreptitious at best. The balance sheet reveals extraverted monocrop and mono-mineral economies, which at best stunted the development of Africa. Additionally, many of the crops are not indigenous and are solely for export, which results in increasing domestic food shortages in many African nations.

To be sure, this study is not an attempt to blame all of Africa's ills on colonialism or Europeans. However, the linkage between colonial policies and neo-colonial practices cannot be denied. Samir Amin plainly views the relationships as defined by the super exploitation of African peasant labor beginning during the colonial period and transitioning into independence.<sup>48</sup> The significance of the colonial legacy is that Africa has been controlled according to the desires of foreign interests. In general, agricultural production (in which women comprise the majority of the labor force), mining, and the overall division of labor serve the market interests of the highly industrial and technological world.

#### Post WWII: Development's

The post-1945 era has seen marked increases in both international economic ties and regulatory/collaborative arrangements to manage them. "At least among the developed liberal countries interdependent ties since 1945 have come to be accepted as a fundamental and unchangeable feature" of international relations, and "few governments are willing to argue any longer for the benefits of economic closure." Increased international economic ties exist at many levels involving trade, foreign investment (*including global firms*) and finance, and they are promoted by a growing acceptance of liberal economic policies. One impact of these

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<sup>48</sup>Samir Amin, *Maldevelopment: Anatomy of a Global Failure* (London: Zed Books, 1990), 11.

trends is that states are losing their degree of autonomy in managing their domestic and international economic policies because of both the intensity of the interdependencies and the development of explicit and implicit regimes.<sup>49</sup>

After the end of WWII (post-1945), America in particular, multinational corporations in general, exploited their opportunity to dominate the world-economy. This opportunity was highlighted by the war torn social and economic nature of Germany, Japan and Western Europe. In order to stabilize and rebuild their economies and infrastructure the Marshall Plan was implemented to fund this venture. The explosion of international investment and the increase in the role of MNCs was largely provided by the Bretton Woods System (1944-1976). This system was created to provide the leadership for a stable world economic order. The International Monetary Fund (IMF) was created to supervise the world monetary system, even though the “United States monetary policy became the world monetary policy.”<sup>50</sup> The major impediment to this system-it was tied to the US dollar. When the United States did well the world did well; when the US faltered the world faltered. This allowed the caretakers of the international economy to recognize a need for change in the monetary system. Important to the development of the international economy was also the birth of the General Agreement on Tariffs and Trade (GATT) in 1948. This was an attempt by the member countries (23 at the time) to reduce customs tariffs and increase trade.

#### African Independence

At the dawn of Africa’s expected renaissance in the 1950s and 1960s, euphoria

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<sup>49</sup>James N. Rosenau & Ernst-Otto Czempiel eds. *Governance without Government: Order and Change in World Politics*. (Cambridge University Press, 1992),80-81

<sup>50</sup>Gilpin, 131-134



justifiably overwhelmed Africans and the African diasporic community. Unfortunately, this euphoria was premature. African countries had many challenges ahead and one of the most significant was settling on which path of development to take. In this area the intellectual community briefly acquiesced to W. W. Rostow's concept of stages of growth and David Apter's notion of modernization.<sup>51</sup> It was widely accepted by many that African nations, now independent, could develop economically following the western paradigm. Even a scholar such as Claude Ake, who certainly is linked to the radical tradition, did not escape the influence of modernization theory. Ake's first work, *A Theory of Political Integration*, published in 1967, examines what he terms "the problem of political integration." By this time, at least thirty-five African nations had won independence. With these "new" states as his backdrop Ake analyzes what served as central questions at that particular historical moment:

- A) How to elicit from subjects deference and devotion to the claims of the state.
- B) How to increase normative consensus governing political behavior among members of the political system.<sup>52</sup>

The central challenge that newly independent African nations faced, according to Ake, was regime stability and maintenance. Ake incorporated what we now know as conservative conceptual tools to analyze the African condition. Ake focused on consensus theory, political system, political behavior, charismatic legitimation, political

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<sup>51</sup>Peter Schraeder, *African Politics and Society: A Mosaic in Transformation* (Boston: Bedford/St. Martins, 2000), 24-25.

<sup>52</sup>Claude Ake, *A Theory of Political Integration* (Homewood, Illinois: The Dorsey Press, 1967), 1.

democracy, and political stability. All terms utilized and promoted by Gabriel Almond, David Easton, Samuel Huntington and Lucien Pye. With the benefit of a 2002 perspective we are able to identify the challenges encountered when focusing on regime maintenance as opposed to transformation. At the time, Ake believed that:

The crucial problem of the postcolonial situation is the integration of the new nation which is threatened by strong centrifugal forces. The nationalist movement . . . tends to disintegrate with the elimination of imperial control . . . The optimistic psychological atmosphere characteristic of revolutions raises expectations to heights that the new government cannot possibly satisfy with the meager means at its disposal.<sup>53</sup>

This view would be radically changed by the development of radical critiques which argued for a New International Economic Order (NIEO) on the basis of primarily African and Latin American countries' underdevelopment. Rather than successfully establish a NIEO, African countries moved from colonialism to neo-colonialism. It became increasingly clear that the industrialized western nations were concerned about continued access Africa's agricultural and mineral resources and Africa as a potential market for western goods.<sup>54</sup> As a result, the desire to have African nations remain dependent became a reality. An understanding which various African leaders held long before academicians caught on. Dependency theory did not develop until the late 1960s, whereas, Kwame Nkrumah had already written *Africa Must Unite, Consciencism, and Neo-Colonialism: The Last Stage of Imperialism*. Nkrumah, Sekou Toure, Julius Nyerere, Eduardo Mondlane, Amilcar Cabral, and Patrice Lumumba all sought to instill a

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<sup>53</sup>Ibid., 17.

<sup>54</sup> Chinweizu, "Africa and the capitalist countries," in Ali A. Mazrui, ed., *General History of Africa: VIII Africa since 1935* (California: UNESCO, 1999), 770-771.

radical departure from the western framework. Whether considered populist socialist, Afro-Marxist, scientific socialist or simply Marxist inspired, each preceded what academics would later classify as dependency theory. This is not to minimize the dependency theorists by any means, simply to put the development of theory and exactly who accepted modernization theory in proper context.

The 1960s are associated as a romantic historical moment when revolutionary change was possible. In fact, 1968 is singled out as the year when a global revolution nearly took hold. Two of the era's most recognizable revolutionary figures –their likenesses which should have been hanging on the wall of every good revolutionaries home – Che and Malcolm, both were infused by Africa's revolutionary potential. Their optimism was certainly a result of African countries foray into the international arena as independent states. The fact that both Che and Malcolm would be disappointed symbolizes the disappointment that the masses of indigenous Africans also shared.

Malcolm was infused by the idea of African unity, particularly through the agency of the Organization for African Unity (OAU). He as many Africans believed that the OAU would serve as a vehicle for reaching continental unity. The allure of independent African countries codifying continental unity attracted the masses and pan-Africanists – continental and diasporan. Malcolm made two trips to Africa, one in 1959 that largely attempted to ingratiate the Nation of Islam with the orthodox Islamic world. The second trip in 1963 inspired his forming the Organization of Afro-American Unity, modeled (in name only) after the OAU. While Malcolm was well received, his stay in Ghana, the base for all intents and purposes of the push for pan-Africanism, he received no

significant counsel from Kwame Nkrumah. No plans were made – only platitudes. This is significant since Nkrumah was viewed as one of, if not the leading voice of nascent Africa. The failure of Nkrumah and Malcolm to formulate substantive plans symbolizes the problematic. Both were victims of a nefarious counterintelligence program, which they both underestimated. Secondly, while they and many other Africans (continental and diasporan) embraced nationalism and pan-Africanism, embarking on this program after capturing the state introduced variables for which they were ill prepared:

The emergence of African nationalism and African demands for national self-determination (independence) of individual colonies followed a different pattern than its classic European counterparts of earlier centuries. The emergence of European “nations” (i.e. cohesive group identities) generally preceded and contributed to the creation of European “states” (the structures of governance). The net result was the creation of viable nation-states that enjoyed the legitimacy of their peoples. This process was reversed in Africa. In most cases, the colonial state was created before any sense of nation existed. As a result, the creation and strengthening of a nationalist attachment to what in essence constituted artificially created African states became one of the supreme challenges of colonial administrators and the African leaders who replaced them during the contemporary independence era.<sup>55</sup>

Che Guevara’s foray in Zaire (presently the Democratic Republic of the Congo) is an example of the historic development of revolutionary leaders and parties in Africa throughout the 1960s and 1970s in the larger context of the Cold War led to proxy wars in Africa, as a battlefield for American or Soviet interests. The attempts of African countries to be nonaligned and seek a path of development independent of the two major powers failed miserably. This of course raises the question as to why the failure? This question has been debated fiercely by proponents of various ideological positions. The

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<sup>55</sup>Peter J. Schraeder, *African Politics and Society: A Mosaic in Transformation* Second Edition (CA: Thomson Wadsworth, 2004), 81-82.

classical liberal philosophy of Adam Smith, neoliberalism, dependency theories ranging from world systems theory to the development of underdevelopment have all been presented as sufficient ideologies from which to understand African politics. While all have had more than sufficient groups of adherents, it is the liberal tradition that has impacted policy the most over the last twenty years, not only in Africa but globally as well.

The liberal tradition posits that the best way for nations to develop is through the implementation of an open trading regime. Under such a regime, economic efficiency is increased and economic growth maximized the more open an economy becomes. Ultimately the consumer is supposed to benefit by having a wide range of goods and services from which to choose. Competition is encouraged by this approach's heavy emphasis on individualism, a free-market economy, and private property. In this framework markets tend to expand territorially, always in search of cheap labor, low costs and high returns. The "market generally brings all facets of traditional society into the orbit of the price mechanism. Land, labor, and other so-called factors of production become commodities to be exchanged."<sup>56</sup> The argument supporting liberalism holds that cultures are transformed from "traditional" to "modern" societies via the incorporation of classical liberal and neoliberal ideology. The proponents of liberalism benefited from the oil shocks of the 1970s, which led to a debt crisis for underdeveloped nations.

### The Debt Crisis

During the 1970s two oil shocks shook the foundations of the world economy,

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<sup>56</sup>Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), 20.

particularly those less developed countries, in Africa, Latin America and the Caribbean, and the Pacific that had no or few energy resources. Before the oil shocks of the 70s, the creation of the Organization of Petroleum Exporting Countries (OPEC) cartel in 1960 transformed African economic relations. OPEC was created by the democratic government of Venezuela in response to the hegemony of American oil companies that controlled prices and production. Western Europe and Japan depended on cheap oil. OPEC sought to restrict the monopolies while gaining a larger role in oil production and prices. The majority of African nations relied heavily on petroleum products, ranging from 60 to 90 percent of the energy required to power their factories. While African countries enjoyed low prices for oil in the 1960s (roughly \$2 a barrel) the rise of OPEC in 1973 and the resulting oil crisis increased the price of oil to \$12 a barrel. By 1981 following the second oil shock, prices for a barrel of oil soared to \$34.<sup>57</sup> The result was that larger percentages of the export earnings of African states were used to purchase oil. By the early 1980s African nations were using upwards to 60 percent of their export earnings to purchase oil. Combined with a decline in agricultural prices and a lack of foreign exchange, non-OPEC African nations were confronted with a massive balance of payments deficit. The debt crisis of 1982 intensified the challenges of African countries in the global economy. The crisis extended the cycle of borrowing, weakened Africa's position in international decision-making, and sharpened the balance of trade deficits and terms of trade problems. While there are many causes for the debt crisis, particularly the military buildup of African countries, decline in export earnings, decrease in foreign aid,

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<sup>57</sup>The prices for oil are not constant and reflect the currency value only during that period.

capital flight by foreign investors, and poor policies by African governments; the belief here is that the two oil shocks, precipitated by a price rise by OPEC, profoundly altered African economies since these events helped to usher in the hegemony of neoliberalism.

The resultant debt crisis created political instability, increased the level of poverty, diverted resources from needed areas and ushered in huge debt servicing. The response of African countries and the international community increased Africa's integration in the global economy. Integration in the global economy is a concept that incorporates the economic, cultural, and political sphere. The removal of trade barriers is an example of increased economic integration. The level of technology in a given society also is an indicator for integration since technology often transports culture. As a result, the presence of multinational corporations and the level of privatization may be indicative of African countries' integration in the world economy. International regimes that facilitate trade between nations and the dissolution of tariffs and quotas are the major conduits for integration.<sup>58</sup> David Harvey, author of *A Brief History of Neoliberalism*, says of this period "There has been an emphatic turn towards neoliberalism in political-economic practices and thinking since the 1970s. Deregulation, privatization, and withdrawal of the state from many areas of social provision have been all too common."<sup>59</sup>

Since the early 1980s the international economy has been characterized by two dominant factors: 1) the free trade in goods and services and 2) the free movement of capital. The stock prices, interest rates, and exchange rates of various nations are

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<sup>58</sup> Bela Balassa, *The Theory of Economic Integration* (Homewood, Illinois: Richard D. Irwin, Inc., 1961), and F. M. Scherer, *Competition Policies for an integrated World Economy* (Washington, D.C.: The Brookings Institution, 1994).

<sup>59</sup> David Harvey, *A Brief History of Neoliberalism* (Oxford: Oxford University Press, 2005), 2-3.

increasingly interrelated and international financial markets overwhelmingly have an impact on economic conditions. Because of the role of international finance capital in the fate of individual countries, we can speak of a global capitalist system – a system favorable to financial capital, which can freely go where it is best rewarded.

#### Salience of Contemporary International Relations

Keohane and Hoffman argue “No longer is it meaningful to speak of “Western Europe” and “Eastern Europe” as distinct entities; for the first time since World War Two, “Europe” is a political as well as geographical reality.”<sup>60</sup> Europe has historically united *de facto* if not *de jure* in codifying an agenda towards Africa. This agenda has always sought to maintain and expand Europe’s “comparative advantage” over African nations. It is because of this historical legacy that these nations share (oppressor and oppressed), that the trade relationship remains insidious at best. The majority of African countries since “independence” continue to overwhelmingly rely on Europe as the primary location for their exports. The Lome conventions ostensibly were an attempt to normalize a reciprocal trade relationship between Europe and Africa. John Ravenhill offers that:

As the EU is fond of reminding its ACP partners, the convention is the most comprehensive economic agreement offered by industrialized countries to a group of developing countries. Besides a trade chapter, which grants free access to European markets on a nonreciprocal basis to most of the exports of the ACP countries, it includes a scheme to stabilize ACP earnings from the export of agricultural commodities (STABEX), measures to encourage ACP mineral production for the European market

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<sup>60</sup>See Robert O. Keohane and Stanley Hoffman, “Institutional Change in Europe in the 1980s” in Brent F. Nelsen and Alexander C-G. Stubb, eds. *The European Union: Readings on the Theory and Practice of European Integration* (Boulder, Colorado: Lynne Rienner Publishers, 1994) , 238.



(SYSMIN), arrangements for specific quantities of ACP sugar to be purchased by the EC at prices close to those paid to European producers, institutions to promote cooperation in the fields of agriculture, and funding for financial and technical assistance through the European development fund.<sup>61</sup>

This program further entrenches Africa in the anachronistic notion of comparative advantage (in the context of the international capitalist system) and their role in the international division of labor. The Lomé conventions and Cotonou Agreement conceptually are bankrupt in providing any meaningful solutions to Africa's problems. One of the central problems for contemporary African political economy, which will surprise no one, is their continued reliance on agricultural exports. African nations continue to export agricultural commodities while importing foodstuffs. One would suppose that the philosophy or ideology one adopts would be liberatory, however, instead of transcending the deleterious effects this produces in African economies, the liberal philosophy seeks to maximize their weakness. Only amongst the nations in the European Union could Lomé be viewed as a rational choice. Certainly, the focus on providing sugar to the EU (then EC) should concern African nations (as well as Caribbean and Pacific nations) about remaining monocropic. As the world continues to make extraordinary leaps in technology, the European Union demonstrates their vision by agreeing to purchase sugar from the ACP producing nations. The Lomé Convention also provides for the extraction of minerals by ACP nations for European Markets. Samir Amin provides a searing indictment against the nature of these treaties:

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<sup>61</sup>See John Ravenhill, "Dependent by Default: Africa's Relations with the European Union" in John W. Harbeson; Donald Rothchild, eds. *Africa in World Politics: Post-Cold War Challenges* (Boulder, Colorado: Westview Press, 1995), 116-118.

France has de facto retained privileged status in its former colonies, notably by the bias of control over the franc zone; the conventions of the association of the African states to the EEC show a concern for preserving privileged status for Europe in regard to American and Japanese competitors, despite the general opening-up of Africa implied by worldwide expansion; that with Britain's membership of the EEC and the association of the African states, the jockeying for influence by the various powers in Africa is even more overt; the kind of unequal relations renewed in this framework in no sense represents progress towards the liberation of Africa and development of its peoples, but on the contrary their restriction to obsolete mining and agricultural specialization's that are to Europe's advantage.<sup>62</sup>

During the 1980s Africa's share in global manufacturing output bottomed out.

Thus, while the Lomé Convention theoretically grants free entry of manufactured goods from the ACP nations, substantively it has taken no steps in providing for increased manufacturing output. Peter Dickens states that the "Manufacturing industry is a small proportion of these countries' trade; the most important element of the Lomé Convention relates to commodities and agricultural products."<sup>63</sup>

The relationship between Africa and the EU is one that maintains rather than transcends relationships codified during colonialism. The access granted to the European market is limited to certain products, restricting products that compete with European products. The nature of the goods being exported from Africa continues the dependent relationship, meeting Europe's needs as opposed to addressing Africa's plight. The problematic of Africa's extraverted economies continues within this framework, which only promises to become more insidious with the recent agenda of the United States. External forces continue to shape Africa's future, proceeding with a liberal agenda of a

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<sup>62</sup>Samir Amin, *Maldevelopment: Anatomy of a Global Failure*, 117.

<sup>63</sup>Peter Dicken, *Global Shift: The Internationalization of Economic Activity* (New York: Guilford Press, 1992), 165.

free-market economy where Africa's role is fixed as a supplier of raw materials and agricultural products. Industrialization is the politically correct term pundit's use when describing Africa's needs; however, the resulting reality leads one to question their logic and reasoning.

The New Partnership for Africa's Development in concert with Bill Clinton's Comprehensive Trade and Development Program for Africa are the most recent attempts in a series of failed policy choices for African development. The signatories of NEPAD are clear that the predicament Africa finds itself in is a result of numerous factors and that globalization does not guarantee success. The primary factors pointed to in the NEPAD are unfavorable terms of trade and poor governance. We should make no mistake in understanding that poor governance, rightly or wrongly, has been emphasized as the primary factor prohibiting African development. In accepting this argument, and embracing all of its constituent elements, the framers of the NEPAD believe that incorporating "good governance, entrenchment of democracy and sound economic policy-making" make for the best possible engagement of the process of globalization."<sup>64</sup> What is interesting is the conscious decision to not challenge or resist the nature of the international economy but rather to argue for increased involvement. The NEPAD states "The new long-term vision will require massive and heavy investment to bridge existing gaps."<sup>65</sup> The NEPAD is being applauded by European, American, and International Funding Institutions officials as the best African proposal for development. This should

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<sup>64</sup>Kempe Ronald Hope, Sr., "From Crisis to Renewal: Towards a Successful Implementation of the New Partnership for Africa's Development," *African Affairs* 101 (2002): 394.

<sup>65</sup>The New Partnership For Africa's Development (NEPAD). October 2001.  
[http://www.uneca.org/eca\\_resources/Conference\\_Reports\\_and\\_Other-Documents/nepad/1](http://www.uneca.org/eca_resources/Conference_Reports_and_Other-Documents/nepad/1) (9/9/2002).

come as no surprise since the NEPAD does not pose any threat to the Neoliberal trading environment. The NEPAD is striking for its refurbished and retread ideas, which its framers pass off as revolutionary or symbolic of an African renaissance. While one could take my word for it, a group of African scholars and activists met in Accra, Ghana on April 23-26, 2002 to discuss Africa's development challenges. Their assessment of the NEPAD is summed up in their document as follows:

We concluded that, while many of its stated goals may be well-intentioned, the development vision and economic measures that it canvases for the realization of these goals are flawed. As a result, NEPAD will not contribute to addressing the developmental problems . . . On the contrary, it will reinforce the hostile external environment and the internal weaknesses that constitute the major obstacles to Africa's development. Indeed, in certain areas like debt, NEPAD steps back from international goals that have been won through global mobilization and struggle.<sup>66</sup>

U.S. Congress passed H.R. 434, the Trade and Development Act of 2000, which included an African Growth and Opportunity Act (AGOA). The Clinton administration pushed for and received its passage into law. The G.W. Bush administration supports AGOA and views it as an integral component of U.S. policy towards sub-Saharan Africa as a way of increasing trade relations between the U.S. and sub-Saharan African countries. The AGOA seeks to promote economic growth by partnering with African governments and African regional organizations to develop better governance, more transparent and open economies, political freedom, the reduction of poverty, and expanded markets for U.S. exports.

The crux of the AGOA is duty-free market access to the U.S. for AGOA

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<sup>66</sup>Africa: Accra Declaration on Development. April 23-26, 2002.  
<http://www.africaaction.org/docs02/accr0204.htm>. (10/1/2002).

beneficiary countries. At the AGOA's inception there were 35 beneficiary countries, a number that has now increased to 40 beneficiary countries. To qualify as a beneficiary country, the country must be located in sub-Saharan Africa, be moving towards a market based economy that eliminates all tariff and non-tariff barriers, eliminates price controls, parastatals, and subsidies. Beneficiary countries also must provide measures to protect intellectual property. The countries that are afforded beneficiary status will be privy to annual meetings of the United States-Sub-Saharan Africa Trade and Economic Cooperation Forum, presided over by the secretary of commerce, secretary of the treasury, and the secretary of state. Additionally, the president and congress have agreed to put pressure on NGOs and the private sector to deepen their relationships with beneficiary countries by holding their own set of annual meetings. The idea is that these meetings will expose the beneficiary countries to not only potential trade partners but best practices for creating an environment where free-market policies can take root and flourish.

The primary component of the AGOA is the preferential treatment of certain textiles and apparel. At least this is what has been applauded by supporters of the AGOA. "AGOA will provide real opportunities' to Africa. Even on conservative estimates about Africa's supply response, Africa's non-oil exports could be raised by 8-11 percent."<sup>67</sup> These products are subject to Rules of origin (Roos), meaning that apparel articles assembled and/or cut and assembled in beneficiary countries must use fabric wholly

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67D.R. Mattoo Aaditya, The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?: [http://www.house.gov/mcdermott/agoa/pdf/2002\\_worldbank\\_working.pdf](http://www.house.gov/mcdermott/agoa/pdf/2002_worldbank_working.pdf) (12/13/08)

formed in the United States. Initially “fabric” did not include “knit-to-shape” apparel. However, knit-to-shape apparel is included in the latest AGOA benefits. Of the 40 beneficiary countries 27 are eligible to receive the apparel benefits.

#### Impact

After the first year of the AGOA implementation 2000-2001, U.S. exports to sub-Saharan Africa grew “17.5 percent to nearly \$7 billion,” although the previous high was \$6,694 billion in 1998. The overwhelming majority of this increase was in “aircraft, oil and gas field equipment, and motor vehicles and parts.”<sup>68</sup> United States Imports to Sub-Saharan Africa declined the first year, primarily because of a drop in crude oil prices. Crude oil dominated U.S. imports from sub-Saharan Africa and was followed by platinum group metals, woven or knit apparel, diamonds, motor vehicles and parts, Iron and Steel, and cocoa bean and preparations. Importantly, Nigeria, South Africa, Angola, and Gabon accounted for 85 percent of U.S. purchases. South Africa was the only country from that group that did not supply crude oil. A New York Times story describes the correlation between South Africa’s automobile industry and the AGOA:

More than 80 percent of the cars made at BMW South Africa’s plant in Rosslyn, about 10 miles outside of the capital, Pretoria, are for export. Half of those, an estimated 25,000 this year....[travel] to consumers in the United States. The cars will enter duty-free, under a preferential trade agreement intended to stimulate African economies.

Additionally, the World Trade Organization is now the main arbiter of free-trade throughout the world. The Trade in Intellectual Property Rights (TRIPS agreement),

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68 2002 *Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the Africa Growth and Opportunity Act*. District of Columbia: Office of the United States Trade Representative.

commitment to reduce tariffs and subsidies, particularly in sectors that do not benefit African nations, have been the focus of international protests at the end of the 20<sup>th</sup> century and beginning of the 21<sup>st</sup> century.

### Methodology

The nature of my research requires the analysis of voluminous economic data on Africa. The methodology best suited for this undertaking is two-pronged: first it is at root a historical analysis of African politics primarily since 1980 but not solely restricted to that period. Meaning, it is important to illuminate the political and economic environment prior to 1980 but our central focus remains 1980 – 2001. Some of this history will be presented in the first chapter and other portions will be analyzed in the literature review. Since this dissertation encompasses case studies, a significant portion of the research surrounds the collection and analysis of political historiographies of Tanzania, Kenya, Nigeria, and Botswana. In addition to the historical analysis a substantial part of the methodology centers on the collection and analysis of existing statistics. The IMF, IBRD, and ADB publish annually African development reports, global trade statistics, and world development reports.

The IMF publishes various working papers and an international financial statistics yearbook. The World Bank publishes annually a *World Development Report*, *African Development Indicators*, a report on *Global Development Finance*, and regional and sectional case studies. Additionally the United Nations Conference on Trade and Development (UNCTAD) publishes an annual *World Investment Report* and the ADB publishes statistics on African development indicators and working papers. These

economic statistics are at present the best source available for data concerning African economic development. The amount of capital flows, prices for commodities, Foreign Direct Investment (FDI), foreign aid, statistics on rural development and gender are all included in these various sources. Each of these areas will be examined from 1980 – 2001 for the selected case studies. Additionally, while it is important to present the data from these various sources it is also important to extrapolate their interpretation of these statistics before I provide my analysis. While there are numerous texts on African development we are not aware of any study that has a specific focus on this time period and analyzes the impact of capital on African development. Much of what one finds on this subject concerns Africa's relationship to the external funding institutions.

The statistics on capital flows will be analyzed for each country in the case study and compared against the social reality for that period. We will be looking for more or less equity, any indigenous movements against increased investment, employment statistics, and any projects that may have resulted from increased IFC. A particularly important characteristic to examine is the type of government that obtains increased levels of IFC. This is important because of the rhetoric concerning democratization and African countries. It is assumed that countries that are less democratic receive small amounts of IFC relative to their more democratic counterparts. Furthermore, democratization has been called for in Africa as the panacea for what ails African countries.

Examining the historical development from 1980 – 2001 for each country in the case study is extremely important to our methodology. This will provide the context for



analyzing an increase or decrease in IFC and other possible reasons for unemployment, lack of equity, and a lack of technological development. However, historical developments before 1980 are also an integral component of our approach. What becomes a key methodological component for this research is some of the assumptions from development macroeconomics. Agenor and Montiel argue “developing countries tend to be capital importers; face exogenous terms of trade; and rely heavily on imported intermediate goods in the production process.”<sup>69</sup> Whether African countries are fixed in this process or are “developing” will be borne out through the methodology.

While this dissertation seeks to explain the increasing significance of IFC on African development, every country is not surveyed. An analysis of aggregate data will be performed; however, the case studies should provide specific information, which allows for generalization. We attempted to pick a country from each region; high-performing and low performing countries; democratic, non-democratic and countries in transition; and countries which historically embraced capitalism or socialism.

Botswana provides an example of a high-performing country that is applauded by Western governments as a model of democratization and free market integration. Since Botswana is viewed as an African country moving in the right direction, analysis of its development over the last twenty years should offer constructive information regarding African development. Kenya is an African country that embraced capitalism early in its independence and provides a historic contrast to Tanzania, which opted to forgo capitalist led development and develop a model of “African socialism.” Additionally, the level of

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<sup>69</sup>Agenor and Montiel, 20-38. The authors list twelve macroeconomic features which tend to define development macroeconomics.

corruption in Kenya, and Tanzania's tentative embrace of capitalism over the past fifteen years offers an opportunity to examine where IFC goes and why. Nigeria was selected because it has the largest population in Africa and most observers agree that Nigeria has the best potential to be an economic force internationally. A dynamic that few African nations can match. Botswana is Africa's longest lasting multiparty democracy and Nigeria is often referred to as one of the most corrupt nations in the world. The contrast between Kenya and Tanzania should provide an excellent regional contrast that highlights the differences between embracing capitalist led development and embracing an alternative development model.

## Concepts

African Development Bank – Founded in 1964, the ADB's primary purpose was to assist the economic growth of the newly independent African states. In 1982 the members allowed non – African states to join.<sup>70</sup>

Balance of Payments – “A tabulation of the credit and debit transactions of a country with foreign countries and international institutions during a specific period . . .

Transactions are divided into two broad groups: current account and capital account. The current account is made up of trade in goods (so-called visible trade) and in services and the profits and interest earned from overseas assets, net of those paid abroad (invisible trade) . . . The capital account is made up of such items as the inward and outward flow of money for investment and international grants and loans”.<sup>71</sup>

Capital – A social process that utilizes money and commodities as a moment in a continuous process. Capital is a factor of production a good already produced) used to create wealth.

Capitalism – A social and economic system where the means of production are privately owned with the objective to maximize profit.

Democracy – A form of government characterized by the existence of free elections on the basis of universal adult suffrage, free press, free speech, and an equitable distribution and access to resources. This term is often separated into liberal and social democracy.

The term “liberal democracy” indicates an emphasis on individual liberty while “social

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<sup>72</sup> Graham Bannock, R.E. Baxter and Evan Davis, *The Penguin Dictionary of Economics*, 6th ed. (London: Penguin, 1998), 5.

<sup>71</sup> Ibid., 16-17.

democracy” places emphasis on greater equity in the distribution of essential resources and social benefits (such as old age pensions, health care, and education).

Derivatives – A generic term for futures, options, and swaps (i.e. instruments derived from conventional direct dealings in securities, currencies and commodities). Trade in derivatives increased substantially in the 1990s, given their usefulness to company treasurers and fund managers as a hedge against security price changes and currency fluctuations.<sup>72</sup>

Development – A normative concept by increases in rates of economic growth, literacy, health care, and decreases in ethnic cleavage, environmental degradation and corruption. For any valuable meaning these concepts must be combined with an equitable distribution and access to resources by all members of society.<sup>73</sup>

Foreign Direct Investment (FDI) – Direct investment, which occurs across national boundaries, that is, where a firm from one country buys a controlling investment a firm in another country or where a firm from one country sets up a branch or subsidiary company in another country.<sup>74</sup>

Free-Market Economy – Goods and services are exchanged with little to no regulation on the basis of relative prices, and private property rights are protected.

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<sup>72</sup> Bannock et al., 112.

<sup>73</sup> Clearly, this definition means that no society can truly be said to be developed. The term is more a goal to be reached than an existing state. Countries moving toward this goal and making substantive policies to achieve it are considered as developing. This definition rejects the notion that western industrialized countries are developed. We argue instead that they are advanced economically and have historically “underdeveloped” African and other nations to advance their economic, cultural, political, and social interests.

<sup>74</sup> Peter Dicken, *Global Shift: The internationalization of Economic Activity*, 2nd ed. (NY: Guilford Press, 1992), 87.

Globalization – The intensification of the movement of capital impacting the social, political, economic, cultural, and religious spheres. This is fundamentally a process that is primarily an internationalization of western views and values.

Gross Domestic Product – The value of all production within a country excluding only income remitted by citizens who are living abroad and income from foreign investments.

Gross National Product – The value of all production by citizens and companies including those located abroad.

Integration in Global Economy – This concept is characterized by membership in International Funding Institutions, global trade regimes, and level of privatization within a particular economy.

International Bank for Reconstruction and Development (IBRD) – A part of the World Bank Group (International Development Association; International Finance Corporation; Multilateral Investment Guarantee Agency). The purpose of the Bank is to encourage capital investment for the reconstruction and development of its member countries, either by channeling the necessary private funds or by making loans from its own resources.<sup>75</sup>

International Finance Capital (IFC) – Investments in the form of loans, Foreign Direct Investment, Derivatives, and Portfolio Investment (stocks and bonds).

International Monetary Fund (IMF) – The Fund was established to encourage international cooperation in the monetary field and the removal of foreign exchange restrictions, to stabilize exchange rates and to facilitate a multilateral payments system

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<sup>75</sup> Bannock et. al., 215.

between member countries.<sup>76</sup>

Neoliberalism – A commitment to the private ownership of goods and services, a free-market economy and international regimes, which stimulate cooperation between nations, and the free circulation of capital. Neoliberals advocate increased financial transparency, downsizing of the public sector, the deregulation of private industries, and the lowering of tariff and non-tariff barriers.

Portfolio Investment – Refers to the situation in which firms purchase stock/shares in companies purely for financial purposes; that is, like any other investor, they build up portfolios of company shares. But such investments are not made to gain control.<sup>77</sup>

Principle of Comparative Advantage – Countries can raise their income by specializing in producing those goods in which it has a comparative or relative cost advantage. Those same countries should import goods that they have a relative cost disadvantage. Static advantage is based on short-run assessment and dynamic advantage seeks to maximize their advantage over a longer period.

World Trade Organization (WTO) – Established in 1995 during the Uruguay Round of negotiations, which led to the WTO replacing GATT. This agreement encompasses GATT and includes trade in services and intellectual property.

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<sup>76</sup> Ibid., 217.

<sup>77</sup> Malcolm Gillis, Dwight Perkins, and Michael Roemer, *Economics of Development* (NY: W. W. Norton & Company, 1987), 18.

## CHAPTER TWO

### LITERATURE REVIEW

The literature on finance capital, international economics, development, capital, capitalism, and the relationship of each to Africa is extensive to say the least. This literature review therefore is not an attempt at exhaustiveness, but simply an endeavor to highlight recent work and seminal critiques. Much of the literature in the various categories is similar in the sense of utilizing similar concepts and historical references. There is however, uniqueness amongst the various authors even in the midst of shared beliefs. I will attempt to tease out the nuances between the different approaches by organizing the discussion into three separate yet interrelated sections: (1) Capital and Capitalism; (2) Global Finance; and (3) Africa and Global Issues.

#### Capital and Capitalism

In *Capitalism and Its Economics: A Critical History*, Douglas Dowd argues that much of what passes for economics is largely ideological. Dowd provides a cursory analysis of economic thinkers throughout the historicity of capitalist development. Primarily Dowd's work is an attempt to move toward an understanding of the contemporary notion of globalization and the exalted role which economists reserve for markets. In essence, this represents an endeavor to construct a politico-economic historiography of capitalism. For Dowd, the eighteenth-century French economist Jean-Baptiste Say was the forerunner of those who advocate free-market supremacy. It was

Say who believed that “overproduction cannot happen” and “[whose] idea leads easily to the firm stand that it is never necessary or desirable to interfere with markets, whatever trouble they may seem to have brought.”<sup>1</sup> This constitutes the tone of Dowd’s work.

Additionally, and this is specific to the scope of our work, he operationalizes the period from 1975 – 2000 as being particularly defined by large Transnational Corporations (TNCs) and dominated by finance. Dowd’s assessment of finance seems to be an appendage rather than a focus of his discussion. His critique of TNCs resonates with a recent *Monthly Review* essay by John Bellamy Foster. Foster examines the notion of monopoly capital and views this as a primary point of departure for analyzing “the new globalization.” According to Foster “Radical dissenters frequently single out the WTO, the IMF, the World Bank, and Multinational Corporations . . . for criticism, while de-emphasizing the system, and its seemingly inexorable forces.”<sup>2</sup>

This approach by Foster echoes the direction of this dissertation. In addition to the work of Dowd and Foster, István Mészáros attempts a noteworthy reconceptualization of Marx’s *Capital*. In *Beyond Capital*, Mészáros reemphasizes the strength of Marx’s original while adding more breadth in relation to contemporary historical developments. A critical component in his analysis concentrates on critiquing the Hegelian dialectic which, in Mészáros’ understanding, viewed capital as an inescapable relationship guided by a benevolent spirit which encompassed the best interests of civil society.<sup>3</sup> In short,

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<sup>1</sup> Douglas Dowd, *Capitalism and Its Economics: A Critical History* (London: Pluto Press, 2000), 34.

<sup>2</sup> John Bellamy Foster, “Monopoly Capital and the New Globalization,” *Monthly Review* 53 (January 2002). This is an excerpt from *Understanding Capitalism: Critical Analysis from Karl Marx to Amartya Sen* by Douglas Dowd.

<sup>3</sup> Meszaros, 25.



the Hegelian framework was limited by not seeking to transform what Mészáros calls the “metabolic mode of control” of capital. Capital is a mode of control that can only be seen as benevolent from the interstices of the ruling class but when viewed from the perspective of labor, comprises their doom. This point constitutes the germ of Mészáros’ thesis that:

Capital is not a ‘material entity’ – let alone a rationally controllable ‘mechanism’, as the apologists of the allegedly neutral ‘market mechanism’ . . . tried to make us believe . . . but an ultimately uncontrollable mode of social metabolic control. The main reason why this system must escape a meaningful degree of human control is precisely because it itself emerged in the course of history as a most powerful . . . ‘totalizing’ framework of control into which everything else, including human beings, must be fitted, and prove thereby their productive viability, or perish if they fail to do so.<sup>4</sup>

What Mészáros is constructing is a framework grounded on the analysis of Karl Marx but clearly attempting to fashion a holistic understanding of capital and dissuade counterintuitive claims of economic determinism. Mészáros however seems to engage in a slight paradox, whereby he claims that capital, as a mode of control, is uncontrollable but is “controlled by the private capitalists.”<sup>5</sup> He tries to correct this by stating that the private capitalists have misunderstood the true nature of the controlled/controller relationship. What makes this further confusing is his argument that “capital’s coming to dominate in the realm of material production and the development of totalizing political practices in the form of the modern state go hand in hand together.”<sup>6</sup>

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<sup>4</sup> Ibid., 41.

<sup>5</sup> Ibid., 42.

<sup>6</sup> Ibid., 49.

Of primary interest and concern to Mészáros are the inherent contradictions within the capitalist project. The primary contradiction is the need for expansion while relying on national states for the command structure of capital. The contradiction is resolved by essentially exporting exploitation. The “national states” provides a high standard of living for labor and a liberal democracy for its citizens while supporting “authoritarian rule, exercised directly or by proxy, in the ‘underdeveloped periphery’”.<sup>7</sup> The crux of Mészáros’s argument is that the system of capital, at all scales, wastes human and material resources. This is no anomaly but inherent to its mode of social metabolic control. The only solution for Mészáros is Socialist revolution.

#### Global Finance

Eric Helleiner produced a seminal work on global finance – *States and the Reemergence of Global Finance*. He notes the momentum of global finance since the 1950s, increasing to the point of even outstripping the daily value of international trade. Helleiner points out that states’ role in this process is nothing less than integral:

States have played a much more central role in the reemergence of global finance. By easing controls, states have given market operators more freedom than they otherwise would have had. At critical junctures, states have also chosen not to use comprehensive controls, the two mechanisms proposed by Keynes and White in the early Bretton Woods drafts for overcoming the difficulties of controlling capital movements.<sup>8</sup>

This observation counters the proposition that the nation-state paradigm is anarchic because of MNC strength. Helleiner’s position elucidates a concert of movement between states and international capital. Noticeably he does not

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<sup>7</sup> Ibid., 53.

<sup>8</sup> Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994), 81.

operationalize this relationship in the control/controller framework of Mészáros but both works complement each other by stipulating the “still” salient role of the state. Helleiner in an article “Regulating Capital Flight,” views capital controls as a constituent element of the international financial order, with historical links to the Bretton Woods conference. The argument provided is seemingly based on the widely held assumption that capital is exported expeditiously from peripheral to core nations. A problem that Helleiner seems to run into, as do other scholars, is that capital flight is limited to “citizens from many poorer countries...sending their money in the other direction.” This dangerously limits the notion of capital to money and provides no presumed analytical value. *International Monetary Cooperation since Bretton Woods* by Harold James examines roughly the same period as Helleiner but lacks any notable analysis of global finance. In fact, whereas Helleiner discussed the contemporary transcending of trade by finance, James focuses on trade as the engine for the world economic system. Paradoxically James is less interested in a critique of the international system than an explanation, as the title suggests, on cooperation. Thus, short shrift is given to the dependency school and other critiques of the international economic system. James does illuminate the views of Singer and Prebisch, which is a start, but it hardly constitutes a serious effort to come to grips with the strengths or weaknesses of that particular approach. To be sure James utilizes that discussion as a bridge to discussing the role of the World Bank. In James’ opinion “The Bank . . . stepped in where markets were nervous because of inadequate information, and educated lenders as well as helping its borrowers.”<sup>9</sup>

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<sup>9</sup> Harold James, *International Monetary Cooperation Since Bretton Woods* (Washington, D.C.: International Monetary Fund: New York: Oxford University Press, 1996), 135.

The work of James is clearly preoccupied with trade and sustaining an open global economy for capital. Philip Cerny, editor of *Finance and World Politics*, takes a different perspective by asserting that the “most significant common denominator” in the global economy is finance.<sup>10</sup> This is a result of the shift to floating exchange rates which Cerny argues constitutes a new period of international economic development. It was following this period that international flows and attempts to regulate international finance gained momentum.<sup>11</sup> Like Helleiner, who contributes a chapter to this work, Cerny also places importance upon international financial developments over the last thirty years as being the primary motive force in the global economy.

Cerny contributes a chapter “The deregulation and re-regulation of financial markets in a more open world” which analyzes the time period this study is concerned with. Here Cerny agrees with most scholars that the Thatcher and Reagan duo represented an ideological counter to previous Keynesian influences. This counterattack combined with “volatile capital flows” to situate financial regulation/deregulation at the center of discussion. His analysis is not based on any particular case study; rather, Cerny constructs an analysis of the financial system proper. His attempt at generalization ultimately falls short because of a failure to explain specific aspects integral to finance and world politics.

Where Cerny fails, Robert Solomon seemingly flourishes. Solomon argues that the transformation the world economy absorbed in the 1970s was a result of stagflation in

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<sup>10</sup> Philip Cerny, ed., *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era* (Brookfield, VT: Edward Elgar Pub., 1993), 17.

<sup>11</sup> *Ibid.*, 13.

the industrial economies; an inability of centrally-planned economies to provide its citizens with higher standards of living; and the borrowing by developing countries which increased their debt burden. Solomon acknowledged the impact of “Reaganomics” as reducing the role of the federal government; cutting non-defense spending and tax rates and accelerating deregulation. Thatcher, Reagan’s ideological ally, also wanted a smaller role for government while reducing the power of trade unions and mobilizing a concerted effort for deregulation and denationalization.<sup>12</sup> Combined they provided a beachhead for free-markets. Susan George in “A Short History of Neoliberalism” supports this assertion where she critiqued the effects of Thatcher’s and Reagan’s policy. Essentially the top twenty percent benefited while the bottom eighty percent stagnated or regressed.<sup>13</sup> The dialogue of George’s article relays a concern about the “losers” in Global Finance, a stark contrast from the “magical markets” which pervade economic and political analysis. This work complements another work by Solomon as well – *Money on the Move: The Revolution in International Finance Since 1980*.

The neoliberal revolution as characterized by a variety of authors reached its apex with the culmination of the Uruguay Round multilateral trade negotiations. The Uruguay Round sought to:

Reduce all tariff levels by at least a third, completely eliminate tariffs in many sectors, bring agriculture fully into GATT, abolish some NTBs, tighten up on a wide range of rules, restrict government subsidies, lay the basis for harmonizing technical standards, create an unprecedented new

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12 Robert Solomon, *The Transformation of the World Economy* (NY: St. Martin’s Press, 199), 6-7.

13 Susan George, “A Short History of Neoliberalism” in Walden Bello, Nicola Bullard, and Kamal Malhotra, *Global Finance: New Thinking on Regulating Speculative Capital Markets* (NY: Zed Books, 2000), 33.

pair of agreements covering services and intellectual property, begin an assault on investment controls and strengthen the disciplinary processes of the multinational system.<sup>14</sup>

This process, for Dunkley, will result in non-economic factors outweighing “speculative” dynamic economic gains. While the proponents of free-markets insist on its merit as something intrinsic to human nature, Dunkley argues the converse that “free trade is not a natural state of society.”<sup>15</sup>

Edward LiPuma and Benjamin Lee capture the essence of the problematic of International Finance Capital in their work *Financial Derivatives and the Globalization of Risk*. LiPuma and Lee argue that financial derivatives are a part of the “culture of financial circulation.” This culture encompasses speculative capital, financial derivative products, and the “newly minted and determinative conception of risk.”<sup>16</sup> Rather than view 1980 as a critical historical moment in the ascendance of international finance capital as I and others have, the authors view 1973 as a critical historical moment. “1973 [is] the period when the fulcrum of power and profit began to shift from the production of commodities to the circulation of capital.”<sup>17</sup> 1973 is the year that the first oil crisis shook the world and also represents the collapse of the Bretton Woods system. LiPuma and Lee argue that this historical moment represents such a revolutionary departure, that it cannot be viewed as simply another form of capitalism. They argue that financial derivatives have produced new forms of domination that orthodox Marxists and critical theorists

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<sup>14</sup> Graham Dunkley, *The Free Trade Adventure: the WTO, the Uruguay Round and Globalism – a Critique* (NY: Zed Books, 200), 10-11.

<sup>15</sup> Ibid., 28.

<sup>16</sup> Edward LiPuma and Benjamin Lee, *Financial Derivatives and the Globalization of Risk* (Durham: Duke University Press, 2004), 23.

<sup>17</sup> Ibid., 67.

simply cannot explain by resorting to analysis of “class relations, private property, material production, and also surplus value.”<sup>18</sup> The rise of derivatives produces a new form of domination that is abstract. LiPuma and Lee discuss the rise of “abstract symbolic violence” that results from the culture of financial circulation. It is “in everyday life, [that] people experience the effects of the market...through the products they can no longer afford, interest rates that make buying a home or improving a business impossible, the retrenchment of social welfare policies...and a decline in the standard of living.”<sup>19</sup>

The abstractness of financial capital is very different from earlier stages in that circulation is now valued over production and risk over labor. In fact, circulation (primarily speculative) is the primary way of creating profit. The authors view neoliberals as the main facilitators for creating a receptive environment for financial circulation. The 1973 oil crisis was the impetus to reverse the capital controls that John Maynard Keynes and Harry Dexter White (architects of Bretton Woods System) believed “were necessary to allow governments to set interest rates to advance their domestic aims and to prevent short-term speculative moments and flights of currency.”<sup>20</sup> Keynes was clear about the flaws of the free-market and the potential for revolutionary change as a response to those flaws.

The significance of manufacturing, agricultural production, mining, et. al. has now been overtaken by the use of financial derivatives. The above are all long-term endeavors whereas “derivatives are oriented toward maximizing short-term profits. The

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<sup>18</sup> Ibid., 15.

<sup>19</sup> Ibid.,

<sup>20</sup> Ibid., 71.

idea is...to discover pricing irregularities allowing for the arbitrage opportunities that are a speculators dream: the realization of riskless or instantaneous profits.”<sup>21</sup> This certainly benefits investors and those with the resources to exploit arbitrageable opportunities. It does not benefit countries that seek long-term commitments. Moreover a popular component to this culture of financial circulation of currency speculation, which can devalue a currency overnight simply by predicting a downward trajectory of the economy or concern over the direction of the government. LiPuma and Lee argue that ultimately “no nation-state, not even the United States, can regulate the exchange value of its currency, the character of its reserve assets, or the transnational movements of capital.”<sup>22</sup> It is in this context that the valuation of derivatives by 2000 was at \$100 trillion.

*Financial Derivatives and the Globalization of Risk* is a work that compliments this dissertation. The major difference is that I take 1980 as my point of departure and the authors see 1973 as a watershed moment. Further, my discussion of International Finance Capital encompasses what they call the “culture of circulation.” They deftly portray the abstractness of this new form of domination in a way that does not reify derivatives or the culture of speculation. The notion that the culture of circulation is answerable to no state on its face seems like reification. But what they do and I attempt to do, is delineate the shift from production-centered capital, heavily influenced by the nation-state, to circulatory speculative capital, which is external to the nation-state. More to the point,

The main reason why a market this large has been able to avoid detection and regulation is that derivatives are too complex, too virtual, and apparently too mathematical for either the political community or those

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<sup>21</sup> Ibid., 37.

<sup>22</sup>Ibid.



who investigate political economy and culture. In a sense, the derivative is the perfect capitalist invention, because it seems to have no concrete form sufficiently legible and visible to allow it to become a sustained subject of conversation in the public sphere. The derivative surfaces only episodically as a diffuse threat to the financial system when the public learns of the failure of a firm or government agency...<sup>23</sup>

## Africa and Global Issues

For a brief period the definitive work on Africa and its relationship to the rest of the world was Walter Rodney's *How Europe Underdeveloped Africa*. What made this work so appealing at the time was that while dependency theory picked up numerous adherents in the late 1960s, there was as yet no specific work committed to analyzing Africa's relationship to the international economic system. Walter Rodney filled a considerable void. The work of Rodney incorporates the Marxist interpretation of history and thus, examines notions of class struggle, development, imperialism, and the trajectory of development. Further, African participation in the global economy is a result of a dialectical relationship. Rodney plainly states "the contention here is that . . . Africa helped to develop Western Europe in the same proportion as Western Europe helped to underdevelop Africa."<sup>24</sup> It is in this vein that Rodney distinguished himself and his work as providing substantive analyses for other activists. Rodney was clear that this was a political contribution as much as a historical one:

The main request which you make is that the manuscript should be passed on to an African historian, because you felt yourself unequal to the task of judging its worth as 'serious history'. It is an ideological challenge. Unfortunately, there is scarcely anyone about, who combines my own world-view with data about the African past. My procedure has been to try as hard as possible to let the work be scrutinized by progressive

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<sup>23</sup> Ibid., 105.

<sup>24</sup> Walter Rodney, *How Europe Underdeveloped Africa* (D.C.:Howard University Press, 1981)

individuals. To pass it on to a serious bourgeois historian would be a sheer waste of time . . . The text aims at a strata of literate Africans in universities, secondary schools, the bureaucracy and the like. They will have to judge whether it makes sense in the light of present conditions in Africa.<sup>25</sup>

At that moment, Rodney was the major person deconstructing the role of Africa in the global economy. In an interesting twist, whereas Walter Rodney was writing during the heyday of Marxism, Samir Amin published *Maldevelopment: Anatomy of a Global Failure* in 1990, which some regard as the beginning of the Marxist funeral. In fact, Amin labels the “present age one of disillusionment.” Amin however is not analyzing the “failure” of Marxism but of development. But criticism for Marxist analysis is not found wanting as Amin chides Marxists for not developing categories for modes of domination as they have for production.<sup>26</sup> The significance of this work rests with Amin’s belief that Africa’s development (or lack thereof) has continually faltered because African economies failed to produce an “agricultural revolution.” This is noteworthy since many authors tend to focus on structural adjustment, democratization, corruption, and debt relief rather than the failure of agricultural development. The emphasis of Amin on agriculture stems from his belief that “industrialization and social development are only possible through an agricultural revolution.”<sup>27</sup>

As other authors have attempted to change the dialogue concerning African

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<sup>25</sup> Rupert Lewis, *Walter Rodney’s Intellectual and Political Thought* (Wayne State University Press, 1998).

<sup>26</sup> Samir Amin, *Maldevelopment: Anatomy of a Global Failure*, 2.

<sup>27</sup> Ibid., 8. Kinfe Abraham in his work *The Missing Millions: Why and How Africa is Underdeveloped*, argues that “Africa[’s] agricultural process largely stems from . . . (1) a dualistic development policy which is biased against agriculture; (2) high population growth rates; (3) the pace at which arable land and harvested areas are developed; and (4) technological change, which is leading to a wide-spread stagnation or even decline in crop yields. (4)

development, Amin attempts to reconceptualize the crisis ridden 1970s and 1980s as primarily an attack on African peasants. Samir Amin argues that “the system of super-exploitation of the countryside, established by colonialism, has not been challenged by the neo-colonial system that faithfully carries on the tradition.”<sup>28</sup> By locating the attack on African peasantry as an extension of colonialism, Amin firmly locates himself in the historicist tradition, a tradition shared by Rodney, Ake, Wallerstein, and Gunder-Frank. This clearly does not mean they all share the same argument. There are particular nuances between them. However, they are linked by an influence of Marxism that views relationships dialectically. Further evidence of this is Amin’s assertion that the:

World capitalist expansion has always been and continues to be divisive. From the outset it has caused and perpetuates a center-periphery dichotomy inherent in currently existing capitalism. In this sense peripheral development has always been a story of perennial ‘adjustment’ to the demands and constraints of dominant capital.<sup>29</sup>

The proposed solution by Amin is to delink. As we shall discuss shortly, this notion is consistent with Fantu Cheru’s analysis and argument of an alternative based on African solutions. Additionally, Amin does not focus specifically on capital but does critique the “crisis of the state” as the result of a contradiction with the “increasing worldwide expansion of capital.”<sup>30</sup>

In *The Silent Revolution in Africa* Fantu Cheru criticizes the single-mindedness of the IMF/World Bank export led strategy. Cheru attempts to provide an alternative and spends considerable time critiquing the myriad strategies for African development.

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<sup>28</sup> Ibid, 11.

<sup>29</sup> Ibid, 68.

<sup>30</sup> Ibid., 76-77.

Cheru's alternative to such strategies is "strategies that promote democracy, self-reliance, accountability and sustainability."<sup>31</sup> While Cheru focuses on the IMF structural adjustment policies, the Berg Report of 1981 is taken to task for overlooking the need for African governments to support small-scale industry, using local resources to meet domestic demand."<sup>32</sup> Cheru clearly attempts to counter the prevailing notions of free-market led development and democratization. Central to his critique is a reconceptualization of the democratic idea. Cheru wants to change the dialogue on African development to meaningful discussions on self-reliance. This ultimately means rejecting closer integration into the global economy and increasing cooperation within Africa by regional integration and with other underdeveloped states by South-South cooperation. The following quote is lengthy but provides a summary of Cheru's arguments: The key to African development is the participation of the people in decision making. In the Lagos Plan of Action and subsequent declarations on development strategy, African governments have clearly articulated the strongly-held view that Africans must be responsible for their own development and that outside agencies need only support African initiatives. . . . If the dignity and vitality of Africa is to be restored, people at all levels, must have the right to establish and manage their own organizations, such as co-operatives, and organizations of women, youth, workers and consumers. . . without such changes, national policies will continue to be in the hands of the same

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31 Fantu Cheru, *The Silent Revolution in Africa*

32 Ibid., 11.

corrupt local elites that mortgaged their countries.<sup>33</sup>

Cheru's critique of the democratization process or more to the point, the type of democratization, is shared by the work of Claude Ake. Ake, after such an inauspicious beginning with his work *The Theory of Political Integration*, developed a serious critique of Africa's relationship to the global economy. Ake founded the *Center for Advanced Social Science* (CASS) as the institutional apparatus for his vision. While working at CASS Ake published several monographs which focused on the prospects of democracy in Africa. The first monograph published by CASS is *Democratization of Disempowerment in Africa*. Ake puts a different twist on the democratization process by arguing that Africa is democratizing the disempowerment of everyday people. This process is a result of western financial institutions and governments' pushing the idea of liberal democracy, which is reduced to standard operating procedures of multipartyism, free elections, transparency and free speech.<sup>34</sup> The conception of democracy as electoral competition benefits the elite in Africa who have the resources to exploit electoral politics to their benefit. African politics is a struggle over state power that is undergirded by an undemocratic process. This process necessitates a democratic transformation of the state.<sup>35</sup> Ake's vision of democracy empowers the masses by involving them in the process at the gateway. Moreover, democratization does nothing for the interests of the majority Africans who live in rural areas and are subsistence farmers. Ake is concerned with how:

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<sup>33</sup> Ibid., 161.

<sup>34</sup> Claude Ake, *Democratization and Disempowerment in Africa* CASS Occasional Monograph NO 1 (Port Harcourt, Nigeria: Malthouse Press, 1994), 1-3.

<sup>35</sup> Ibid., 8.

The process of democratization in Africa is not only leaving non-elites, especially rural dwellers, disempowered but democratic participation now tends to be a ritual affirmation of their disempowerment. . . The African who is slated for democracy is a rural dweller, who lives in a society which is still predominantly communal. She is a subsistence farmer toiling for a precarious existence. She has virtually no access to safe drinking water, health services and sanitary facilities and she is illiterate or nearly so. What does democratization mean in this setting and for this person? There is no chance at all that how she votes or whether she votes at all is going to make accountable to her. . . She is offered only a spurious choice which is framed by forces beyond her control, often beyond her understanding and of little relevance to her needs.<sup>36</sup>

The democratization that he argues for is not vacuous. Free elections mean very little if they are dominated by elites. They mean very little if the social relations of production stay the same. Ultimately for Ake's vision of democracy to take hold a transformation of the state must take place. For Crawford Young this is simply not a vision of democracy but a "utopian integral-populist version."<sup>37</sup> Larry Diamond shares Young's view and others who view democracy in its most basic sense and believe democracy will flourish in African countries that throw off the fetters of authoritarianism. This coincides with the western notion of democracy and that supported by IFIs.

Another CASS monograph, *The Marginalization of Africa: Notes on a Productive Confusion* details a little more how Africa can develop. Ake takes an ingenious look at marginalization. Ake finds it interesting that for so long we have complained about Africa's tortuous integration into the capitalist world economy and then we oddly complain about its marginalization in the world economy. While Africa is marginalized in the sense of economic and political factors it achieves a prominence of sorts, albeit in a

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<sup>36</sup> Ibid., 20

<sup>37</sup> Crawford Young, "Africa: An Interim Balance Sheet," in *Democratization in Africa* edited by Larry Diamond and Marc Plattner (MD: Johns Hopkins University Press, 1999) : 78.

negative manner. The production process is what is essentially marginalized in Africa, at the end of the day decreasing the value of primary products and terms of trade.<sup>38</sup> Ake unambiguously locates the African elite and international financiers as occupying a duplicitous relationship which results in the underdevelopment of Africa. Central to Ake's analysis is the dialectical materialist construction of history. Thus, the marginalization facing Africa is "what Africa needs" to develop. This forces Africans to rely on their resources and collective will to develop. As Cheru pointed out, to date the most progressive plan for African development has been the *Lagos Plan of Action* which offers a distinct contrast to the World Bank's *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*. Ake argues that:

*The Lagos Plan of Action* takes a holistic approach in several senses. First, in treating agriculture and industrial development together and being methodically attentive to the effects of the one on the other. Second, in recognizing the integral relation of the internal and external causes of the African crisis. Third, in seeing development as a task which must involve everyone and every sector, private and public, agriculture and industry, labour, capital and peasantry. In this respect, it leans towards participative development.<sup>39</sup>

The program of the World Bank was based on developing more access to the African market and African countries continually focusing on primary production. As pointed out by Ake, African leaders viewed this plan as a ruse to deepen Africa's exploitation in the global economy.

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<sup>38</sup> Ake, *The Marginalization of Africa: Notes on a Productive Confusion* CASS Occasional Monograph NO 6 (Nigeria: Malthouse Press, 1996), 7.

<sup>39</sup> Ibid., 25-26.

The culmination of Ake's CASS work is *Democracy and Development in Africa*. Ake begins by examining the nature of the independent African state and concluding that while the managers changed, the nature of the state remained. The African elite embraced external led development while superficially acknowledging the need for self-reliance. Again the burden rests with the indigenous elite who exploit a duplicitous relationship with external interests. Predictably this results in the disempowerment of the indigenous majority. Ake takes independence leaders to task, most notably Nkrumah and Kenyatta, for acquiescence in the development paradigm, which attempted to increase the wealth of the nation as opposed to the people. The exogenous development strategies are a result of a lack of vision from African leaders. Ake restates his argument about the democratization of disempowerment but offers what he considers to be four characteristics of suitable democracy for Africa:

- 1) Democracy in which people have some real decision making power over and above the formal consent of electoral choice.
- 2) A social democracy that places emphasis on concrete political, social, and economic rights, as opposed to a liberal democracy that emphasizes abstract political rights.
- 3) Places as much emphasis on collective rights as it does on individual rights.
- 4) Democracy of incorporation.<sup>40</sup>

These emphases from Ake and Cheru are characteristic of what can be considered Marxist-influenced scholarship on African development. While not describing the challenges Africa faces in Marxist language, the concepts utilized speak to works highly influenced by the Marxist interpretation of history. The work of Rodney, Amin, Cheru, and Ake represent the best critiques of Africa's interaction in the global economy. Each

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40 Ake, *Democracy and Development in Africa* (DC: Brookings Institution, 1996), 132.



focus critically on structural challenges posed by integration in the global economy and views the relationship in strictly historical terms. It is because of this historicist position that they are essentially dismissed by the work of George Ayittey. Ayittey believes that Africa's problems are primarily self-inflicted. In a somewhat crass conceptualization, Ayittey described the types of African theorists as internalists and externalists. For Ayittey constructing the schools of thought in this manner conveys a fundamental understanding as to why Africa is imploding. Ayittey argues that "a mind deeply obsessed with the past is incapable of cogent analysis of present and future issues."<sup>41</sup> This is particularly problematic since Ayittey emphasizes how the world has changed over the last fifty to one hundred years. Ostensibly opportunities are available for African states where they previously did not exist. Ayittey believes that the internalists are best able to provide sound analysis of contemporary developments since they believe that colonialism did hinder Africa but internal factors have made Africa's plight significantly worse.<sup>42</sup>

Ayittey's work does provide some value for locating the various objectionable practices by porous African leaders. However, we find the same critique in the work of the so called "externalists" who Ayittey believes to shy away from such criticism. The fact that Ayittey does not critique Africa's relationship to the global economy in any significant detail is shortsighted to say the least. It is because of this limitation that his work has been applauded. In fact, Andrés Velasco in a recent article in *Foreign Policy* provides a similar analysis, which argued that it had no recognizable theoretical value.

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<sup>41</sup> Ayittey, 7.

<sup>42</sup> Ibid.

While solely focusing on the Latin American theorists and experience, Velasco concludes that “Liberalization of trade and investment is . . . here to stay by popular demand.”<sup>43</sup> The type of work of Ayittey and Velasco offers no structural critique and are essentially grounded in the behavioral approach. The other authors provide excellent insight into Africa’s condition and there is much overlapping in their analysis. However, what seems to also connect their work is a lack of emphasis on capital beyond a critique of the funding institutions. It seems that Marxist authors focus on capital and negate Africa, whereas Amin, Cheru, Rodney, and Ake while Marxist influenced, tend not to focus on capital per se. Because of the increasing impact of international financial capital on the global economy in general, this is an aspect we can ill afford to negate or minimize.

In sum, I found the work on Africa and global issues to be illuminating and helpful yet none have asked the questions that we ask for this specific time period. The literature primarily is concerned with democratization, structural adjustment, delinking, dependency, agricultural development, corruption, and to a lesser extent gender issues. The focus of this study with an eye toward capital as a social process undergirding the IMF and IBRD, to date has not been focused on in relationship to African development. The critique of William Tabb is particularly pertinent. Tabb argued that “Labor and the larger progressive movement need to give far more attention to the emergent international financial regime now underconstruction.”<sup>44</sup>

## Conclusion

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<sup>43</sup> Andrés Velasco, “Dependency Theory,” in *Foreign Policy* (2002) : 44-45.

<sup>44</sup> William Tabb, “Labor and the Imperialism of Finance,” in *Monthly Review* 51, no. 5 (1999): 20-34.

In conclusion, the literature reinforces a few points: (1) global finance has become the motive force in international economics; (2) the period beginning roughly in 1980 symbolized by the Thatcher and Reagan regimes represents a transition of sorts for the global economy; (3) the increase globally of trade and investment popularly regarded as globalization, has produced a rise in living standards for industrialized countries but fundamentally structural problems remain; (4) African countries have opted en masse for globalization.

There are only two studies that tangentially focus on the topic of this study and only one is concerned even remotely with the same time period. Icheduru's work examines the period encompassing 1980-1991 but is specifically concerned with structural adjustment. While his study is informative it does not fully capture the dynamism of the period or the factors that gave birth to that particular stage of development. The work of Mészáros and Tabb echoes our focus on examining capital but clearly does not provide a substantial analysis of its relationship to African countries. Therefore, after reviewing the literature, we conclude that no study has examined the impact of international finance capital on African development from 1980-2001.

## CHAPTER THREE

### THE SIGNIFICANCE OF INTERNATIONAL FUNDING

#### INSTITUTIONS AND NEOLIBERAL PHILOSOPHY SINCE 1980

The crucial factor [of the Uruguay Round Negotiations] would seem to be the emergence in the postwar period of a transnational market system which benefits some and imports costs on others. The interests associated with the rise of this system seek to pry open protected markets and to extend the internationalization of economic decision making to new sectors of activity, and they have the political resources to do so.

-Philip Cerny, *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*

#### Introduction

This chapter concerns how the international economic environment has developed since 1980. The time frame however, is a misnomer of sorts. It is a misnomer because it is always difficult to point to one historical moment as the critical or defining moment for any specified phenomena. 1980 was selected in this instance, and widely accepted by others, because of several factors that helped transform the international economic system into a distinctly new era. The events of the late 1970s and early 1980s are a result of a dogged determination by the adherents of free market economics to chart a new strategy for advancing their interests. To be sure there are significant differences and various nuances to this eclectic group. What they seem to share is a harsh aversion for the revolutions that shook the twentieth century, from the Bolshevik revolution to the Vietnam conflict. During that phase tyrannical leadership, embodied best by Stalin and Hitler, provided plenty of fodder for conservative anti-labor and anti-Marxist theories.

The result is that an interesting dialectic is played out whereby the masses in the “third world” were throwing off the fetters of colonialism, during the 1950s, 1960s, and 1970s, and declaring a self-determined, non-aligned strategy of development, while they were being countered by adherents of a philosophy, which argued that the very essence of freedom was the acceptance of the free market. Indeed, Friedrich Hayek equated the nationalization and import-substitution schemes that would momentarily prevail during the 1960s and early 1970s for many newly independent countries with serfdom. Hayek, and shortly thereafter, Milton Friedman, would both equate the essence of capitalism (the unhindered search for profit), with liberty.<sup>1</sup> The exponential growth of the United States economy following the Great Depression, mainly the post-WWII period, coupled with the tyrannical regimes of Stalin, Hitler, and Mussolini in the minds of many to validate capitalism and the free market over alternative strategies for development. Although Mussolini and Hitler represented right-wing states that shunned socialism and progressive movements, this fact has not stopped people (mainly economic conservatives) from placing them in the same category as Stalin. To be fair, this type of grouping is usually reserved for the popular imagination and by pundits - not by scholars. The end result was that a resurgent right-wing would slowly but surely ingratiate itself with the mainstream. This turn of events was lucidly captured by David Ricci:

In the 1950s and 1960s, right-wing sentiments inspired what later conservatives called the Old Right. This ideological conglomeration, a

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<sup>1</sup> Naomi Klein provides a detailed examination of Milton Friedman in *The Shock Doctrine: The Rise of Disaster Capitalism* (NY: Picador, 2007). Friedman is largely recognized as the leader of the neoliberal/neoconservative movement. A movement as much against Keynesianism as it was/is for unfettered free markets. According to Klein, Friedman’s philosophy needed catastrophe’s in order to be put in practice. A scorched earth policy of sorts, whereby, all government intervention is dissolved, labor unions broken, wages cut, and the door flung open to private investors (i.e. the market).

verbal catchall really, included such thinkers as Russell Kirk, Friedrich von Hayek, James Burnham and Frank Meyer, such organizations as the John Birch Society and the Christian Anti-Communist Crusade, and such journals as *Human Events* and William Buckley's *National Review*. All the elements that later became familiar as parts of the "New Right" worldview were present in the Old Right, including a commitment to Western tradition rather than moral diversity, a preference for individual freedom and private property, and a generic American fear of communism as the common enemy. Buckley summed up this outlook when he defined American conservatism, in both its earlier and later incarnations, as "a spirit of resistance to the twentieth century."<sup>2</sup>

This conservative formation was not relegated to only a domestic point of view.

Rather, we see a similar defense and inflexible assertion of the Western tradition in arguments developed by advocates of modernization theory. Modernization theory was a clear attempt to shape the world according to western standards. A not so thinly veiled effort was made to persuade the newly independent countries to open their markets to International Finance Capital and embrace western notions of democracy. At times this effort was advanced by the CIA in its attempts to advance strategic national interests, which ultimately meant embracing dictators that opposed populist leaders – even if democratically elected. While modernization theory was significantly challenged in the 1960s and 1970s its impact on development theory and the push for interdependence in the 1970s should not be underestimated.

The term "globalization" has been in use since the early 1990s to describe a process that is as old as capitalism itself. Expanding to new markets -cheap markets- is a requirement built-into the system. The infinite search for profit, unhindered by government interference is a feature of the system that binds all capitalists together.

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<sup>2</sup> David Ricci, *The Transformation of American Politics: The New Washington and the Rise of Think Tanks* (New Haven: Yale University Press, 1993), 155.

Since expansion is part and parcel of the capitalist process rather than simply an aberration, globalization is viewed here as an integral component of capitalism. Even with this caveat in mind however, the role that International Finance Capital plays or the influence it has, expanded significantly since 1980. In fact, trade in financial derivatives barely registered a blip on the international economy during the 1970s. Now it outstrips all other forms of trade – even if it has been overvalued.

### Keynesianism

While it stands to reason that in a world dominated by capital, picking a particular period as more important than another or representing a fundamental change from another period, may be disingenuous; a movement away from the welfare state and desire to open the markets further to International Finance Capital marks a significant moment in contemporary international politics. In this vein, 1980 marks the rise of Thatcher (1979) and Reagan (elected 1980), a decade long culmination of neoliberals and neoconservatives asserting their ideology, and the second significant oil shock. More importantly, by 1980 Keynesian economics, which had dominated economics for much of the twentieth century, had lost much of its vitality as it was increasingly under attack by conservatives and neo-conservatives. Keynesian policy had a profound impact on economic theory and fiscal policy before and after his publication of *The General Theory of Employment, Interest, and Money*, his magnum opus.<sup>3</sup> Although it should be pointed out that before publishing *The General Theory* Keynes wrote “The Economic

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<sup>3</sup> Keynes was not the first to argue for a reform of classical liberalism. In fact, nations began to move to some type of reform before his 1936 publication. Eric Hobsbawm provides a useful survey of this period in *The Age of Extremes: A History of the World, 1914-1991*. Chapter 3, “Into the Economic Abyss,” covers with the Keynesian influence.

Consequences of the Peace” which critiqued the Treaty of Versailles and anticipated his post-1929 focus. Keynes influence stems from that period and peaked during the Great Depression. While every schoolchild knows *laissez-faire*, many do not know the type of reform Keynes helped to shape. His basic proposition that aggregate demand can and should be influenced by fiscal policy and not simply market forces reformed classical liberalism and capitalism. It may not be a stretch to argue that it prevented either a revolution or a counter-revolution in America and other parts of the world during the 1930s. Before 1929, American businessmen were in large part admired but the unbridled speculation, which was a significant factor leading to depression, left very few Americans with a warm heart for seekers of unfettered profit. Largely as a result of John Maynard Keynes, the government would take a more activist role in the economy and international funding institutions (GATT, IMF, World Bank) were organized following WWII to provide oversight for the international economy. Oddly enough, the two principal international funding institutions that Keynes helped create now spend an inordinate amount of time disabusing sovereign countries of the notion of an activist government in the economy.

Keynesian economics was dominant in the United States and Western Europe from approximately 1930 to 1980. Unmistakably, this period spans revolutionary movements and struggle in Africa, African independence and post-independence history, the Civil Rights, Black Power, global student protest and anti-war movements. Many underdeveloped nations, while not utilizing Keynesian economics in the strict sense (many were Marxist inspired) incorporated the notion that sound fiscal policy positively influenced aggregate demand. Import substitution policies became the latest rage as



former colonies devised schemes to empower themselves and not be beholden to external interests. The result was an abundance of parastatals that often failed to deliver the type of development promised by leadership. This prospect coupled with the rise of Multinational Corporations (MNCs) in the late 1960s and early 1970s, created a significant challenge to state “hegemony” in the economy or so was argued at the time. In fact, numerous studies were published at the time regarding the supposed challenge posed to the Westphalian system by MNCs and increased interdependence: Barnett and Muller published *Global Reach: The Power of Multinational Corporations*, Richard Rosecrane *Rise of the Trading State* and Harry Magdoff’s *The Age of Imperialism: the Economics of U.S. Foreign Policy*. There were stirrings from all ideological persuasions about the “rise” of MNCs, which led one author to predict that “when the history of the late twentieth century is written, it will surely be said that it was the operations of industry that did more than anything else to undermine the overwhelming dominance of the nation state over the condition of man for the last three centuries.”<sup>4</sup> Much of the debate centered on the MNCs ability to transcend state relations or dictate policy because of their enormous potential. While Rosecrane did not specifically focus on MNCs, he was still prescient in stating that “international openness, low tariffs, efficient means of transport, and abundant markets offer incentives to many nations’ that have only to find a niche in the structure of world commerce to win new rewards.”<sup>5</sup> Rosecrane captures the very elements of an order dominated by International Finance Capital. IFC requires

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<sup>4</sup> Hugh Stephenson, *The Coming Clash: The Impact of MNCs on National States* (NY: Saturday Review Press, 1972).

<sup>5</sup> Richard Rosecrane, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (Perseus Books Group, 1986), ix.

openness, the abolition of tariff and non-tariff barriers (NTBs), and the privatization of the economy whereby MNCs are able to flourish. The change to this type of international regime in large part results from the events of the early 1970s. Although there has been a recent backlash, particularly in Latin America, against the hegemony of IFC, it remains the dominant force in international political and economic relations.

Keynesian dominance of domestic and international economics was severely set back when the United States, whose currency was the underpinning for the Bretton Woods System, began to suspend gold payments in 1971. The suspension of gold was historic and effectively ended the regime of “fixed” or “pegged” exchange rates.

Countries were now allowed to “float” by adopting flexible exchange rates. Between 1946 and 1971, gold was backed by the dollar at \$35 per ounce. To further complicate matters, the United States proceeded to levy a 10% tax surcharge on all imported goods. The result was a system (Bretton Woods) thrown into crisis because the dominant economic power was incapable or unwilling to keep the system afloat. But in one of history’s ironic moments, the Organization of Petroleum Exporting Countries (OPEC), which to a large extent was an outgrowth of Arab nationalism and to a lesser extent underdeveloped nation’s attempt to create leverage for themselves in the international trading environment, set the wheels in motion for the transformation of the world economy that would soon come to be dominated by finance and investment capital.

#### Oil Shocks and Collapse of Bretton Woods

The two oil shocks of 1973-74 and 1979-80 damaged underdeveloped nations (in this case African nations) more than any other group. The tripling of the price of a barrel of oil created significant challenges to oil importing nations, especially those following

Keynesianism or Marxism. This is the case because of these regimes' propensity, for very different reasons, to spend on social programs. The need to allocate more financial resources for the consumption of oil lessened government's ability to meet the health and educational needs of its citizenry, particularly when there already was a struggle to meet those needs before the price rise. Further, African nations ability to pay back their debts was put at severe risk. Now the irony I alluded to earlier was a result of OPEC's willingness to stockpile their profits in western banks. The banks in turn lent vast amounts to underdeveloped countries. Robert Solomon at the time argued that, "The developing countries incurred very large deficits as a result of the recession, and their financing needs exceeded by far what would have been required to meet the higher costs of oil imports. This is a major problem for 1976 and beyond."<sup>6</sup> The problem for underdeveloped nations was so dire that in retrospect the 1950s and 1960s surge of independence that brought so much promise would seem like a distant dream by the end of the 1970s. To further complicate matters, the collapse of the Bretton Woods System led to increased protectionism amongst the leading industrialized nations. While they turned inward in the 1970s the international environment would view that as anathema in the next decade for underdeveloped nations.

African nations had experienced a modicum of economic growth to varying degrees during the 1960s and countries such as Tanzania spread African activists throughout the diaspora. We are on safe ground assuming that many African countries were on a high from independence, even in light of the Biafran War, and revolutionary

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<sup>6</sup> Robert Solomon, *The International Monetary System, 1945-1976: An Insider's View* (NY: Harper & Row Publishers, 1977), 300.

struggle in Guinea-Bissau, South Africa, Rhodesia, and places for African liberation. But if we examine the impact of African independence movements and other “third world” nations asserting themselves, and oppressed people globally, a decisive counterattack was waged, which ostensibly shaped the international system in IFCs best interests.

### Conservative Backlash

The success of independence movements, often accompanied by charismatic leadership with populist undertones, coupled with the social movements in the United States to create a conservative backlash against the left. In the United States the backlash took the form of a conservative movement that was determined to stem the tide of the Civil Rights Movement, Black Power Movement, and Anti-war movement. Additionally, and more pertinent to our focus, the conservative movement attempted to wrestle economics away from the grip of Keynesians. The key to conservative success was largely a byproduct of “first, rates of inflation began to rise more rapidly in the industrialized world from the end of the 1960s. Second, unemployment began to increase along with inflation during the 1970s.”<sup>7</sup> Richard Nixon seized upon the economic impact of Vietnam to begin the process of dismantling Lyndon Johnson’s Great Society. The political and economic realities that led to resurgent conservatism ushered in a movement to reestablish capital as a “social metabolic mode of control.” Peter Hall provides a brief overview of this conservative link:

Monetarist doctrines also had a special appeal for conservative politicians because they provided a new rationale for policies that conservatives had long espoused, including reducing public spending and taxation, limiting

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<sup>7</sup> Peter Hall, “Monetarism” in *The Oxford Companion to Politics of the World*, edited by Joel Krieger (Oxford University Press, 2001).

state intervention and the power of trade unions in order to reinforce the role of market mechanisms in the allocation of resources, and renouncing the responsibility of governments for unemployment. Thus, monetarist arguments began to figure prominently in the market oriented programs that conservative politicians promulgated during the 1970s and 1980s.<sup>8</sup>

The point that must be reiterated here is that the regime of IFC was not and is not solely relegated to responding to market forces and economic debates. After Vietnam, because of the negative critiques of war influenced of course by body bags returning and not soldiers, proxy wars became the number one alternative to advance U.S. political and economic interests. At the time, U.S. foreign policy decisions were very much concerned with strategic economic interests and not humanitarian. Therefore, the installation of tyrannical leaders' vis-à-vis U.S. military intervention was less about democracy and more about making the world safe for capital.<sup>9</sup> While the administrations of Nixon, Ford, and Carter generally supported financial liberalization; it was not until Reagan that a religious like zeal for financial liberalization took hold. More precisely, no two political figures did more for the regime of IFC than Ronald Reagan and Margaret Thatcher:

In foreign policy, Reagan breathed new life into the rhetorical division of the world into a free west and slave east that made the United States and its allies, by definition, part of a "crusade for freedom"...Reagan expanded the category [of freedom fighters] to include armed groups struggling to overthrow mostly established Third World governments friendly to the Soviet Union...In his 1964 nominating speech for Goldwater, Reagan had declared freedom the central value of American life and identified two threats to its survival: communism abroad and big government at home...the "free market" took its place alongside the free world as the essence of freedom...economic freedom for Reagan meant dismantling economic regulations and reducing the power of unions.<sup>10</sup>

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<sup>8</sup> Peter Hall, 556.

<sup>9</sup> Christopher Hitchens, "The Case Against Henry Kissinger," in *Harpers Magazine* (March, 2001). Hitchens provides a detailed analysis of the influence Kissinger had on U.S. foreign policy and how this policy was crafted on the basis of strategic U.S. interests – be they economic or political.

<sup>10</sup> Eric Foner, *The Story of American Freedom* (NY: W.W. Norton & Company, 1998), 321.

The first policy implemented by the Thatcher regime was to end Britain's arrangement of exchange controls.<sup>11</sup> This was in line with the conservative backlash against Keynesian economics, which dominated Britain since the 1930s. Neoliberalism took root in Britain with Thatcher and in 1981 in the United States when Reagan assumed office. Both regimes had a profound influence on the major international funding institutions and were able to direct their course, in terms of neoliberal policies since 1980. Because the two oil shocks had particularly deleterious effects for the underdeveloped economies, causing widespread debt, the major Bretton Woods institutions, the IMF and World Bank, exploited the [situation] to dictate neoliberal prescriptions. The first shoe to drop was in Mexico 1982 when the government "[suspended payment] to its foreign bank creditors."<sup>12</sup> The possibility of Mexico defaulting on its loans would have compounded to include other Latin American countries at minimum, thereby jeopardizing the neoliberal renaissance. The United States moved quickly to stave off the crisis by bailing Mexico out of its crisis but "The United States made it clear to the Mexican government that no rescheduling agreement could be reached with the banks unless it first accepted a tough austerity and restructuring program designed to restore the confidence of foreign creditors."<sup>13</sup> This was a foreshadowing of what would be a common practice for underdeveloped countries. The IMF and World Bank structural adjustment programs required borrowers to accept certain conditions, most notably reduction in state

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<sup>11</sup> Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, NY: Cornell University Press, 1994), 150.

<sup>12</sup> Pierre-Richard Agenor and Peter J. Montiel, *Development Macroeconomics*, 2d ed. (Princeton, New Jersey: Princeton University Press, 1999), 547.

<sup>13</sup> Helleiner, 176.

involvement and a devaluation of the state currency. The Bank's position was driven home in a controversial report, The Berg Report, in 1981. This report was in stark contrast to the Lagos Plan of Action (1979) which sought to transform African economies from an export orientation that was not diversified, to a self-reliant orientation with forward and backward linkages. Fantu Cheru offers a stinging and concise critique of the Berg Report:

Throughout the Berg Report suggests a period of austerity associated with increased dependency of the continent on the countries of the North. The Bank's vigorous campaign to force African countries into accepting free market and export-led strategies condemns the continent to its traditional colonial role as a supplier of cheap raw materials and as an importer of expensive manufactured goods from the West. The more pressing need for a fundamental domestic restructuring that would involve input by the population for building an equitable and self-sufficient economy is not seriously considered in the bank's agenda.<sup>14</sup>

The impact of the leading industrialized countries and leading financial institutions collaborating in pushing a neoliberal agenda, had a ripple effect throughout the global economy. It became clear that in order to gain any concessions for debt rescheduling, the neoliberal program had to be adopted. In turn, more opportunities were created for International Finance Capital. The international financial market has experienced exponential growth since 1980. Derivatives have taken center stage as an increasingly common transaction. In fact "today, most major institutional borrowers and investors use derivatives."<sup>15</sup> The transition however to a regime dominated by International Finance Capital stunted any notions of self-reliant growth, making the

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<sup>14</sup> Fantu Cheru, *The Silent Revolution in Africa: Debt, Development and Democracy* (London: Zed Books, 1989), 9-14.

<sup>15</sup> Robert Solomon, *Money on the Move: The Revolution in International Finance since 1980* (Princeton: Princeton University Press, 1999), 110.

Lagos Plan of Action sheer folly in a decidedly neoliberal environment. The dominance of IFC coupled with the retreat of the radical left (i.e. Marxists) led the vast majority of African countries to tread the path laid by the major industrialized countries and International Funding Institutions. The end result following a slow growth period from 1989-1993 was an increase in deregulation and “the removal of restrictions on foreign ownership which had impeded inflows of foreign direct investment.”<sup>16</sup> Deregulation and increased integration of course were only enhanced by the Uruguay round of negotiations, which included the transition from the General Agreement on Trade and Tariffs (GATT) to the World Trade Organization (WTO). The WTO agreement has a particular emphasis on financial services. These events and agreements since 1980 has made it easier for international investors to gain entry and make profits, however, for African countries, which continue to be hindered by their lack of diversification, they continue to struggle to protect commodity arrangements. Furthermore, the WTO has failed to curb agricultural subsidies by the West, most notably by the United States, which places African farmers at a decided disadvantage. The absolution of the subsidies would benefit African farmers and others because of their low production costs.

## Conclusion

This chapter reviews some of the major changes that has taken place throughout the world since 1980. As dynamic a century as the twentieth century was, prior to 1945 there were no international economic institutions to guide or oversee the international economy. Earlier efforts to produce an International Trade Organization (ITO) were

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<sup>16</sup>Agenor and Motiel, 577.



stillborn. The sociopolitical and socioeconomic context created by World Wars I and II influenced the desire to create a more interdependent world and a world that rejected classical liberalism.

The first half of the twentieth century led to the dominance of Keynesian policies at a moment when manufacturing and industrial interests held sway over the international landscape. Underdeveloped nations sought to develop these industries through a series of failed policies, while simultaneously attempting to provide the infrastructure necessary for development. Although the late 1950s and 1960s were decades of hope for formerly colonized countries, they were soon mired in debt and forced to adjust to a changing international environment that rejected Keynesian policies. In fact, the transition after 1980 to an international economy dominated by finance capital constitutes a revolutionary moment when we consider how the world was organized for much of the 20<sup>th</sup> century. It represents a seismic shift that African countries still have not adjusted. Many African economies are still trying to develop and need to develop their land, labor, and capital (i.e. production). However, the international economy is dominated by banks, portfolio investment, derivatives, and foreign direct investment (i.e. finance capital).

## CHAPTER FOUR

### BOTSWANA

The most significant goal of Botswana was to reduce its vulnerability to its powerful neighbors.

- Richard Dale, *Botswana's Search for Autonomy in Southern Africa*

#### Introduction

Globalization has been discussed ad nauseam since the early 1990s. Discussions concerning the benefits or drawbacks of globalization are sure to stimulate energetic debate among policy makers, academics, and activists. The context in which globalization is usually discussed centers around the influence of specific countries, the usual suspects being the United States, Western Europe and Japan. However, as a strategy for “proving” the inefficiency of alternatives to free-market development, Thailand, Malaysia, Singapore, Indonesia, Brazil, and to a lesser extent India have all been put forward as examples of how globalization can transform previously “undeveloped” societies. When the discussion turns to Africa and critics are likely to lament the “basket case” syndrome, we can be quite sure to hear the utterance that Africa should “look at what the Asian Tigers have done over the past 30 years.” However, during that same period, there is a well-known suggestion that Africa does indeed have a homegrown example to support the belief that the free-market lifts all boats. This chapter is an attempt to come to grips with the veracity of that proposition.

The history of Botswana provides an interesting corridor into the understanding of African development. Botswana, like most African countries, has struggled to throw off the fetters of its colonial past. This historical challenge of Botswana's past provides a microcosm of Africa's exploited past. Botswana's history is very much a history of external dependence resulting from European colonialism; dependence on a larger neighbor (South Africa); indigenous resistance and cooptation of indigenous leaders; and a nominal independence where Botswana has struggled to diversify its economy. Botswana presents an interesting case study because of the prevalent view among advocates of liberal democratic capitalism that Botswana is "the" success story in Sub-Saharan Africa. The perception that Botswana is a success – relative of course to the rest of Africa – is based on apparent low levels of corruption; an openness to foreign investment; consistent GDP growth; a tradition of liberal democracy; a willingness to reform or restructure their economy; and abundant diamond mines to exploit and providing Botswana with a comparative advantage. This chapter will critically examine the character of Botswana's development historically while emphasizing post-colonial strategies for development.

#### Historical Context

The history of the people of Botswana although extending back to the fifth century A.D., was deeply altered by contact with Europeans in the 19<sup>th</sup> century. Before the interlopers arrived, the Tswana, the dominant ethnic group in Botswana, primarily lived in a subsistence economy that heavily relied on cattle production and hunting. In fact, cattle production is an instance where the colonial economy did not alter a

traditional practice and continues to play a major role in Botswana's economy. Not unlike other African societies, following contact with the colonizers, the Tswana soon were engaged in an internal and external struggle, which would overdetermine their future path of development. Externally they had to ward off the ever-present threat of the London Missionary Society, German missionaries and the Boer Republic.<sup>1</sup> European settlers long had their eyes set on Southern Africa not only as a source for resources but as a strategic location to the Far East and as a corridor to North and East Africa. The Southern Africa region represented a virtual European paradise, which could serve as a retreat for the wealthy and ostensibly as a location to "civilize" backward Africans. Despite the fact that the scramble for Africa proper begins in 1884, military struggle between the colonizers and indigenous people of Southern Africa was marked throughout the 19<sup>th</sup> century. Although the most cited resistance is the Zulu revolution, the Tswana waged a protracted physical resistance as well. Ultimately having to contend with raids from the neighboring Ndebele and the Boers proved too great an impediment in the Tswana's attempt to defeat the colonizers. Perhaps as a precursor for things to come following colonization, indigenous Tswana King Kgama, along with other kings in the region, who although they "may have abhorred the principles of westernization and colonialism, they none the less were in desperate need of foreign support to assure their survival . . . they ultimately adopted missionary alliance and British . . . protection as essential instruments of policy."<sup>2</sup> A well-known dilemma indicative of the impossible

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<sup>1</sup> Louis A. Picard, *The Politics of Development in Botswana: A Model for Success?* (Boulder: L. Rienner Publishers, 1987), 26-27.

<sup>2</sup> Ibid.

choices African countries were faced with under colonialism.

Once the Batswana began to acquiesce to colonial interests, the door was open to establish Botswana as a base for migrant labor for the principal jewel in the British crown – South Africa. During the Berlin Conference, the Batswana, as a result of Kgama's relationship with the missionaries, were able to become a part of the British protectorate in 1885, henceforth known as the Bechuanaland Protectorate. Botswana, as other Southern African nations, would be underdeveloped vis-à-vis their connection with South Africa. South Africa's prime coastal location and plethora of resources was an excellent opportunity for the British to establish a port off the coast of Africa. What one quickly notices upon researching the history of Botswana is that "the indigenous Bechuanaland society was transformed into a dependent society which supplied cheap unskilled labor."<sup>3</sup> It is within this context that Botswana's history is representative of African History as it regards the continent's colonial past. The Batswana were quickly viewed as a resource for the Kimberley mines, which would come to serve as the cornerstone of the Debeers diamond monopoly, which until recently, dominated the international diamond industry. Since Botswana's status as a protectorate until the present, the mining and cattle industry have served as Botswana's economic lifeline. Louis Picard reveals that:

Britain's priorities in Bechuanaland were to stimulate the cattle industry and encourage labor migration at the expense of an expanded role for Botswana in the trading sector or in agriculture. Britain's interest in Bechuanaland's agricultural production was limited to the small European community resident in the eastern part of the territory. The colonial administration's limited interests in African agriculture was linked to the vested interests in the preservation of the European trader's role as agent's

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<sup>3</sup> Jack Parsons, "The 'Labor Reserve' in Historical Perspective: Toward a Political Economy of the Bechuanaland Protectorate" in *The Evolution of Modern Botswana; Politics and Rural Development in Southern Africa* by Louis Picard (University of Nebraska Press, 1985), 53.

for food imports, part of their larger monopoly of the entire import trade.<sup>4</sup>

Picard's observation is timely because it contextualizes the nature of Botswana's development. In like manner, Samir Amin emphasizes as much as anyone the lack of prominence given to agriculture when considering African development writ large. Botswana's economy was manipulated during the colonial era to be extraverted and meet Britain's needs, or rather, to satisfy England's strategic economic interests. More to the point, the Botswana economy was constructed to further South African and British aspirations as global political and economic hegemons. Consequently, there was a concerted attempt on behalf of the colonizers to make South Africa the imperialists most favored nation in Southern Africa. Our concern here is how this relationship was or was not transformed following "independence."

#### Colonialism

It stands to reason that a central query proffered when examining African countries should be "did the social relations of production change during the transition from colonialism to independence?" In analyzing Botswana and any other African country, the answer to this question will provide a critical answer for where Africa is going and needs to go in the 21<sup>st</sup> century. Certainly our answer must be empirical but also normative in our attempts to understand African development. One can readily understand that British and South African duplicity resulted in Botswana not being industrialized after gaining independence and that "Botswana had no manufacturing industry worthy of the name. Besides the [Botswana Meat Commission], there were only

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<sup>4</sup> Picard, (1987), 113.

six firms employing more than 50 people.”<sup>5</sup> Although Botswana was extremely underdeveloped by 1966, from that time to 1995 they were able to average a 6% annual increase in GDP.<sup>6</sup> An annual increase of this type is excellent for a highly developed economy let alone a newly independent country. Whereas some African countries aligned themselves with anti-capitalist regimes, Botswana was able to cultivate significant resources in the educational and scientific fields by utilizing the expertise of numerous countries, the most prominent being the United States and Soviet Union. That they were able to manage this during the Cold War speaks volumes about their function as a moderate country.<sup>7</sup> A conscious effort was made to not engage in the ideological and revolutionary – counterrevolutionary struggle during the Cold War. Botswana’s function as a moderate country has been a constant since 1966 through the regimes of Sir Seretse Khama, J. Quett K. Masire, and Festus Mogae. In fact, Botswana now often refer to their country as “the Switzerland of Africa.” The reference is of course to the Swiss’ well-known neutrality, which the Botswanan government firmly believes will enhance Botswana’s attractiveness to international investors. To be sure, the evidence tends to support this assertion.

### Independence

In the late 1960s throughout the developing world there was a pervasive optimism about the future of Africa and its relationship to the rest of the world. This optimism was

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<sup>5</sup> Balefi Tsie, *The Political Economy of Botswana in SADCC* (Harare: Sapes Books, 1996), 108.

<sup>6</sup> Presidential Task Group for a long term vision for Botswana, *A Framework for a Long Term Vision for Botswana* (1996), 10. Robert Curry posits that the percentage is 7.3%. Curry, “The Legacy of Sir Seretse Khama: Botswana’s ‘Real’ Diamond Mine.” Paper Presented at Association of Third World Studies Conference, November 2003, Shreveport, Louisiana.

<sup>7</sup> Dale, 69.

a result of the flood of independence movements in Latin America and Africa. Many African people were captivated by their leaders that led the independence struggle who were often charismatic and battle tested from the great effort against colonialism. These leaders symbolized the century's long struggle against colonialism and the hopes for an egalitarian society that only independence could bring. In this regard Botswana was no different than other African countries and the leadership of its first president, Sir Seretse Khama, did nothing to dim this optimism. Robert Curry points to the leadership of Khama as an integral component of Botswana's exceptional economic growth.<sup>8</sup> Khama did create an environment where corruption would not be tolerated during his tenure, however, Botswana's economic growth was due in large part at the time of independence, "[To] DeBeers announce[ment] of its rich diamond discovery at Orapa-Bamangwato Concessions had (an Anglo-American and AMAX subsidiary) decided to develop the Selebi and Phikwe copper-nickel deposits."<sup>9</sup> Since then the government has purchased ownership shares, thus the name Debswana (Debeers + Botswana). In fact, the Orapa Expansion Project II (The Orapa Complex) "is considered to be the world's largest diamond mine."<sup>10</sup> Botswana's production of gem diamonds accounts for roughly 40 per cent of the gem diamond output globally and the thriving mining sector now accounts for 35 per cent of the Botswana GDP.

The expansion of mining operations has increased the urban labor force but politics in Botswana continues to be dominated by the cattle industry and some rural

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<sup>8</sup> Curry, *passim*.

<sup>9</sup> Hans-Erik Dahl, "Economic and Social Development in Botswana 1966-1978," in *Papers on the Economy of Botswana*, edited by Charles Harvey (London: Heinemann, 1981), 6-7.

<sup>10</sup> OECD, *African Economic Outlook 2001/2002* (OECD, 2002), 50.



farmers. The influence that the cattle industry had over Botswana before colonization did not change after independence. Ronald Libby argues that the “Tribal Grazing Land Policy (TGLP)...had the effect of exaggerating the already skewed distribution of wealth and income in the rural area.”<sup>11</sup> This reflects the notion advanced by Mészáros most recently that antagonistic relations are created by the structuring of hierarchical social relationships, based solely on a particular group’s proximity to capital.<sup>12</sup> In short, the historic importance of the cattle industry privileges those that control the cattle industry over the rest of the community. Forty per cent of the national population is in the livestock sector, which accounts for the continued political influence from this sector. Although the economic impact of this industry does not coincide with its economic production.

Although many view Botswana as a success they continue to be dominated by external interests in the form of International Finance Capital. Those who support the underdevelopment thesis have always argued that raw materials and cheap labor are prerequisites for investments. The evidence from Botswana seems to support this notion. We have to consider that the mining and quarrying industry “account[s] for over half of GDP, and diamond exports for over two-thirds of total exports” from which only a small minority has benefited.<sup>13</sup> Since Botswana diamond mining specializes in gems (as opposed to industrial diamonds), the export receipts are significant. By 2001 over 85%

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<sup>11</sup> Ronald T. Libby, *The Politics of Economic Power in Southern Africa* (Princeton, NJ: Princeton University Press, 1987), 114.

<sup>12</sup> Istvan Meszaros, *Beyond Capital* (London: Merlin Press, 1995), 43.

<sup>13</sup> Paul Collier, Jan Willem Gunning & Associates, eds. *Trade Shocks in Developing Countries: Volume 1: Africa* (Oxford: Oxford University Press, 1999).

of Botswana's exports were from the diamond industry. That remains significant for a minority considering that the mining industry employed a high of 9% of the labor force in the early 1980s and only a small percentage of this 9% flourished.<sup>14</sup> To take the point further, IFC in Botswana dictates the wages of workers based on market fluctuations. An example of this phenomenon is shown during the diamond recession of 1981-1983.

Wages were frozen, ostensibly in a move to offset the recession. Certainly recessions are a part of the business cycle, however, the freezing of wages and the dependence on the diamond industry illustrate the tenuous nature of Botswana's development.

In turn the Botswana government, while clearly acquiescing to market fundamentalism, has done a commendable job in increasing its foreign exchange reserves during boom cycles to offset episodes of recession. To their credit, the government recognized that Botswana is open to the vagaries of the market but their stockpiling of reserves is interesting given Botswana's growing divide in wealth and poor unemployment rates.

Table 4.1 GDP Growth (%annual change) and GNI per capita

	1980	92	93	94	95	96	97	98	99	2000	01
GDP	12.0	2.9	1.9	3.6	4.4	5.6	6.9	6.0	6.1	8.6	6.3
GNI	1,190	3,270	3,320	2,950	3,190	3,100	3,260	3,290	3,040	3,070	3,100

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The above table highlights that Botswana has had consistent economic growth, which is why their economic policy has been applauded for so long. Table 4.1 also

<sup>14</sup> Moortaza Jiwaji and Maria Sarraf, "Beating the Resource Curse," World Bank, *Environmental Economics Series* (October 2001).

reveals that Botswana's income is exceptional for an African country.

Table 4.2 Wages (monthly earnings U.S. dollars) In Agriculture, Mining, Construction Manufacturing, and Transport

1980	88	89	90	91	92	93	94	95	96	97
Agriculture	80	----	54	71	80	97	97	90	90	90
Mining	371	----	287	319	450	424	436	496	430	428
Construction	218	----	148	159	182	196	211	220	214	228
Manufacturing	173	----	181	171	206	199	242	250	200	210
Transport	344	----	239	296	346	417	457	434	468	435

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

Excepting transport and communications, by far the mining industry provides the highest wages; nevertheless, the influence of the cattle industry remains extremely important. The cattle farmers have an abundance of influence in politics and "the proceeds from livestock sales go directly to the farmers, and these incomes, with their attendant multiplier effects, help to increase rural purchasing power and stimulate rural development and employment opportunities. Livestock represents a major national resource and remains the cornerstone of the agricultural sector."<sup>15</sup> It does not seem to be the case however, that the multiplier effect referred to has had the tertiary impact generally associated with this phenomenon. Balefi Tsie makes an even stronger analysis concerning the influence of the cattle class:

Botswana's cattle-based bourgeoisie is predominant at both levels of the

<sup>15</sup> Owodunni Teriba, "Country Case Studies," in *The Challenge of African Economic Recovery and Development*, edited by Adebayo Adedeji, Patrick Bugembe, and Owodunni Teriba (Great Britain: Frank Cass & CO. LTD, 1991), 70-71.

state and civil society. It constitutes what Poulantzas [In *State, Power & Socialism*] has called a “power bloc” in the sense that it is its interests that are advanced by the state more than those of other fractions of the dominant class.<sup>16</sup>

This is particularly risky considering the droughts that periodically strike the region. Before the Uruguay Round of negotiations, Botswana enjoyed preferential trading arrangements with the European Union for their livestock exports. However, the Uruguay round of negotiations led to the creation of the World Trade Organization and the dismantling of preferential trade arrangements. Even in light of the Uruguay round and the droughts, the “small but influential socio-economic elite, who have gained and anticipate continuing doing so, from the cattle sectors’ integration into the world trade system.”<sup>17</sup> The government’s strategy for best dealing with persistent drought and dismantling of preferential trade arrangements is to diversify the economy. The government seeks “to establish Botswana as a center for financial services within the region or further afield.”<sup>18</sup>

To encourage increased investment, the government has gone out of its way to attract foreign investment. Botswana is regarded as one of the most open countries to foreign direct investment.<sup>19</sup> Botswana’s textile industry is almost wholly foreign owned. To be fair, the government of Botswana has made a point in characterizing the disproportionate foreign ownership as a problem. The problem is in continuing to attract

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<sup>16</sup> Tsie, 183.

<sup>17</sup> Kutlwano Mulale, “The challenges to sustainable beef production in Botswana: Implications on rangeland management,”

<sup>18</sup> Ibid.

<sup>19</sup> *African Economic Outlook 2003/2004* (OECD, 2004), 55.

investment while decreasing the percentage of foreign ownership.<sup>20</sup> Botswana already allows for profits and direct investment to be repatriated without any restrictions. Exchange controls of any magnitude have been successfully eliminated.

The ability of Botswana to sustain economic growth since independence clearly is a result of the thriving mining sector, not simply diamonds, but the copper-nickel finds as well. However, a more significant factor in Botswana's development is that while Botswana's history reflects the common challenges that most African countries have faced, Botswana developed differently during what Colin Legum penned "the period of disillusionment 1970-1985." Legum describes this period as being rife with military coups, increased debt burden, vulnerability to the vagaries of the market, and high rates of population increases.<sup>21</sup> Botswana has not experienced one military coup in its history since independence. This may be attributed to the fact that Botswana, more than most African countries, is ethnically homogenous. Whereas Nigeria has over 250 ethnic groups, 95 per cent of the population in Botswana is from one group – the Batswana. This degree of ethnic homogeneity creates an atmosphere conducive to cooperation rather than conflict. The debt burden of Botswana did not increase during the 1980s. Because of the strength of their mining sector and ability to consistently attract IFC, Botswana did not resort to implementing an IMF/World Bank structural adjustment program.

## Conclusion

Recent evidence suggests a growing economic divide in Botswana. Clearly Botswana is a success story when accounting for liberal democracy. By all accounts

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<sup>20</sup> *A Framework for a Long Term Vision for Botswana* (1996), 8.

<sup>21</sup> Colin Legum, *Africa Since Independence* (Indiana University Press, 1999).

Botswana has had regular free and fair elections and Africa's longest running stable democracy. Botswana is consistently regarded as one of the least corrupt African governments and continues to be attractive to foreign investors. The annual economic growth rate of 13% during the period 1966-1991 has slumped to 5% since 1992, which coupled with the debilitating effects of the HIV/AIDS crisis has stunted Botswana's development. This intractable crisis has certainly impacted life expectancy and the labor reserve. Botswana has had consistent economic growth since independence, however, nearly half of Botswana's population lives below the national poverty line. The people that have benefited from the years of growth have been those who run the cattle industry and the diamond industry.

While Botswana has had a long period of peace, in contradistinction to the development of other African nations this has not translated to more equitable development and raises significant concerns about the ability of a society, open to the free-market, equitably distributing its wealth. This promises to become more challenging as Botswana's foray into the stock exchange becomes more pronounced. The Botswana stock exchange accounted for 6.62% of the GDP in 1991 and this figure increased to 21.03 % by 2001. Not surprisingly, with the sole exception of the construction industry, wages decreased during the same period of the stock exchange increase. This implies a negative correlation between increased securitization and wages. All the more disconcerting is the fact that:

The international foreign exchange market is decentralized and does not have a systematic, comprehensive system for recording individual trades. Instead, to regulate private banks and financial institutions and measure capital flows, central banks and supervisory bodies require them to

register overnight balance sheet positions. In today's 24-hour global marketplace, however, foreign exchange traders can hide positions by shifting them between branches in different time zones and so always remain within working hours, or they can use derivative financial instruments that do not show on balance sheets. Finally, traders can avoid the foreign exchange market altogether by buying and exchanging securities, such as bonds, or treasury bills, denominated in different currencies.<sup>22</sup>

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<sup>22</sup> Rodney Schmidt, "A Feasible foreign Exchange Transactions Tax," in *Global Finance: New Thinking on Regulating Speculative Capital Markets*

## CHAPTER FIVE

### TANZANIA

Tanzania is seen as a failed experiment and no longer elicits the kind of enthusiasm or sympathy it did in the 1960s and 1970s when Tanzania's brand of socialism attracted the attention of states, donors, international organizations, movements and individuals.

-Marja Liisa Swantz & Aili Mari Tripp, *What Went Right in Tanzania: People's Response to Directed Development*

#### Introduction

Tanzania, in a backhanded compliment way, is an interesting country. We can attempt to find a sexier adjective than "interesting", but after reading about Tanzania's history, a simple, plain, quizzical reaction is in order. Tanzania is a country that at independence was concerned with eradicating poverty, disease, and illiteracy, which were "the three enemies of the people." Oddly enough, even though they were operating in an international system that their own leaders, and others, called neo-colonialist and imperialist, Tanzania was applauded by both supporters and detractors for its alternative path of development. This praise continued after the Arusha Declaration in 1967 into the early 1970s. Clearly there were not many countries in the world, which declared socialism and continued to receive support –rhetorically at least- from the international community. The "support" they received however was short-lived and Tanzania since the mid-1980s has been described by many as an economic basket case. The country has a reputation, economically at least, that is the polar opposite of Botswana. This reputation, primarily because of the leadership of Tanzania under the stewardship of



Mwalimu Julius Nyerere and his attempt at socialism, led to the country being marginalized from the international economy. Nyerere stepped down from office in 1985 after refusing to accept the International Monetary Fund's conditions. Joseph Stiglitz even points out his own confusion at the IMF in its handling of Tanzania. Since 1986 Tanzania has attempted to develop by accepting the conditions and creating an environment that welcomes International Finance Capital. Yet Tanzania remains one of the Highly Indebted Countries even in light of its decision twenty years ago to forgo Ujamaa and seek market prescriptions. An analysis of Tanzania should provide useful information to understand why some underdeveloped countries have been unable to prosper in this democratic liberal capitalist environment. Further, it should provide an enlightening contrast to Botswana. As the case with Botswana, Tanzania is best understood by understanding its role in the region. Whereas Botswana was neglected in large part because of South Africa, Tanzania was disregarded from any serious notions of development because of more significant economic interests in Kenya.

#### Historical Context

Tanzania is an East African country bordered by the Democratic Republic of Congo, Zambia, Kenya, Uganda, Rwanda, Burundi, Malawi, Mozambique and the Indian Ocean. Originally named Tanganyika, the country merged with its island neighbor Zanzibar in 1964 to form Tanzania. Tanzania has over thirty-seven million residents, 68 per cent of whom live in rural areas. The overwhelming majority (99 per cent) of the residents is black African and primarily speaks Kiswahili, Chagga, and English. The staple of Tanzania's economy is the export of sisal, cotton, coffee, and minerals,

particularly gold and diamonds.

Energized by the first “Scramble for Africa” in 1884-1885, Germany gained colonial control over Tanganyika. Over the course of the following thirty-three years, a turbulent thirty-three years, this area would be known as German East Africa and Tanganyika. From the outset indigenous Africans resisted the colonizers, fiercely culminating in large-scale uprisings in 1905- 1907, with the most notable being the Maji Maji revolt. These uprising forced Germany to tacitly agree to introduce reform measures; however, the settlers (mainly from South Africa) “resisted reform and continued to exploit the territories human and material resources.” Since the country was rich in natural resources, Africans were conscripted to work settler plantations that produced coffee, cotton, tea, tobacco, and sisal. Additionally, ivory became a major export for the colonialists during this period.<sup>1</sup> The net effect of this means of production entrenched Africans role in the increasingly international division of labor as “hewers of wood and drawers of water.” This period was unmistakably one of expansion for the world economy, ultimately dominated by European and United States’ imperial ambitions. While Europe expanded into Africa after the Berlin Conference of 1884-1885, the United States had already made it clear, via the Monroe Doctrine, that the Americas were their business and their business alone. The “white man’s burden” to civilize so-called backward African people was complete. Further, there were shortages in the supply of raw materials, thus making expansion in Africa extremely profitable. The significant charge for Tanganyika, as well as Kenya and Uganda, was to produce a

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<sup>1</sup> Joseph Harris, *Africans and Their History* (New York: Penguin Books, 1972), 200.

significant amount of cash crops for the United Kingdom and strengthen its waning empire.<sup>2</sup>

As in all cases the historical record may be viewed from many ideological lenses. In this particular context, although many view colonialism as a fetter to African development, there is a significant, more conservative view on colonialism in Africa. Montague Yudelman, writing for the Hoover Institute, views the role, and creation of the role of Africans in the world economy as a positive force for development. In “Imperialism and The Transfer of Agricultural Techniques” Yudelman posits that before the colonial period Africans existed “outside of the money economy.” Yudelman continues to present the “benefits” of colonialism:

By the end of the colonial era, however, the colonial impact had created conditions that had a substantial bearing on raising agricultural output and trade. The establishment of ‘law and order’ and the advent of the administrator, teacher, missionary, tax collector and trader all contributed to the need to produce a surplus to meet money obligations...The surplus was large enough to meet the demands of the expanding urban centers in Africa, as well as to provide the major exports to earn foreign exchange with which to finance imports needed to foster economic development.<sup>3</sup>

Interestingly, Yudelman, who at the time was the director of the agriculture department for the International Bank for Reconstruction and Development (World Bank), placed no importance on who benefited from the economic development. His analysis is couched in the ideology of classical liberalism, which primarily is concerned about protecting the free market and the notion of comparative advantage that stipulate

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<sup>2</sup> Peter Gutkind and Immanuel Wallerstein, eds., “The Three Stages of African Involvement in the World-Economy,” in *Political Economy of Contemporary Africa* (London: Sage Publications, 1985), 45-50.

<sup>3</sup> Montague Yudelman, “Imperialism and the Transfer of Agricultural Techniques,” in Peter Duignan & L.H. Gann, eds., *Colonialism in Africa: 1870-1960* (Stanford, California: Hoover Institution Press, 1975), 329.

that every state has a particular role or function in the world economy. In this way, Tanganyika became associated with exporting agricultural resources with no thought given to the deleterious effects colonialism had in Tanganyika and East Africa. Also, no analysis is made to the mention of “money obligations.” In *A Political Economy of Africa*, Claude Ake gives further details about on the destructive monetization process:

The real task of Monetisation began, and this mainly the task of making the new medium of exchange thoroughly pervasive in the economy. First they encouraged wage labor often by force...by appropriating land from Africans and thus reducing them first to squatters and eventually to wage laborers on their land...African economies were monetised by imposing taxes and insisting on payments of taxes with the European currency.<sup>4</sup>

Ake illuminates the cultural impact as well as the economic. Monetisation devastated Africans’ standard of living, notably in Tanganyika. After being subject to German rule, Tanganyika was allotted to Britain after World War I. The League of Nations issued a mandate that granted Britain another east African territory to administer in addition to Kenya and Uganda.<sup>5</sup> During the British colonization of East Africa they envisioned solidifying the Suez route to India as a means of controlling and expanding their trade routes. It is along those lines that Kenya retained strategic importance for British policy. Railway construction was quickly in progress to further advance the British into Kenya’s inland. This railway linked the Uganda and Kenyan interior with the coast and reached the Lake Victoria basin, which borders Tanzania, by 1901. The purpose of this advance was to transform East Africa into a source and exporter of raw

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<sup>4</sup> Claude Ake, *A Political Economy of Africa*, 34.

<sup>5</sup> William Tordoff, *Government and politics in Africa* (Indianapolis: Indiana University Press, 1997), 38; and Joseph Harris, 1972, 201.

materials for Europe.<sup>6</sup>

The British transformed Kenya into the center of East African development while relegating Uganda and Tanganyika to the margins. Tanganyika's economic role was one of exporting "a small number of agricultural commodities" and supplying migrant labor to Kenya. Tanganyika exported cotton, coffee, and sisal<sup>7</sup> and in so doing, maintained the role created for them under the German East Africa Protectorate. No attempt was made to "develop" Tanganyika technologically or diversify their economy.<sup>8</sup> Even though cash crop farming became a significant venture in Tanganyika, which ultimately because of the coercion and exploitation of the peasants, created clear contradictions that led to a nationalist movement.<sup>9</sup> It was during this period that Tanganyika's economy became linked with Britain's East African colonies and protectorates. It should be pointed out though, that Tanzania after the First World War and up to the end of the Second World War became one of the leading producers of sisal in the world. In large part this was a result of British finance capital seeking high returns from the agricultural sector and a dispossessed rural African class.<sup>10</sup>

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<sup>6</sup> A. Adu Boahen, *General History of Africa: VII Africa Under Colonial Domination 1880-1935* (California: Unesco, 1990), 73.

<sup>7</sup> Encyclopedia Britannica online. "The plant is native to Central America, where its fibre has been used since pre-Columbian times. Commercial interest in sisal was stimulated by the development of the machine grain binder in the 1880s, which brought a demand for low-cost twine, and plantings were soon established in the Bahamas and Tanganyika (now Tanzania)." <http://www.britannica.com/eb/article-9067998/sisal> accessed 11/12/07.

<sup>8</sup> Joel D. Barkan, "Comparing Politics and Public Policy in Kenya and Tanzania" in Joel D. Barkan with John J. Okumu, eds.; *Politics and Public Policy in Kenya and Tanzania* (New York: Praeger Press, 1979), 13; also see Claude Ake, "Ideology and Objective Conditions," *Ibid.*, 123.

<sup>9</sup> William Tordoff, *Government and Politics of Africa* 3<sup>rd</sup> ed. (Bloomington, Indiana: Indiana University Press, 1997), 49-50.

<sup>10</sup> Werner Biermann, *The Tanzanian Economy 1920-1985: Colonial Valorisation, Reconstruction, and Crisis* (Dar es Salaam, Tanzania: Dar es Salaam University Press, 1998), 44-48.

Because of Tanzania's geographic location one would think that crop production would flourish. Although Tanganyika is bordered by three lakes: Nyanza (Victoria), Tanganyika, Nyasa, and the Indian Ocean, other geographical characteristics have hindered its agricultural production. Gilbert L. Rutman points out that the combination of rocky terrain, low rainfall, and the tsetse fly has historically impeded Tanganyika crop production. This effectively limited production to four small areas: a small coastal area, the lake shore, Southern Highlands, and areas along the western border.<sup>11</sup> During the colonial period Tanganyika produced two major minerals for export: diamonds and gold. Tanganyika did not have the technological capability to exploit other natural resources (i.e. coal, copper, iron ore, nickel, graphite, tungsten). Britain and other European powers viewed Tanganyika, as was the case for most other African countries, as little more than a supplier of commodities. During the colonial period the Tanganyikan economy experienced little diversification and industrialization. The combination of the fact that upwards to 90 percent of the population were farmers and by 1950 only 5 to 10 percent of the adult population was literate, led to Tanganyika being deeply underdeveloped.<sup>12</sup> Much like other African countries, Tanganyikans placed a heavy emphasis on education and good health care. The peasants and the urban work force, were united in their insistence on improved health care, education, and higher wages.

### Independence

The combination of peasants and workers organizing and consistently pressing for change, coupled with Britain's inability to maintain its colonies, led to the independence

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<sup>11</sup> Gilbert L. Rutman, *The Economy of Tanganyika* (New York: Praeger Publishers, 1968), 11.

<sup>12</sup> Ibid., 13-25.

of Tanganyika in 1961. Unlike many African countries (i.e. Morocco, Angola, Zimbabwe, Guinea-Bissau, et. al.), the transfer of power was made peacefully. Tanganyika, however, entered the independence era with a population that was not sufficiently prepared to run a country successfully. There was minimal technological development, low literacy rates among the adult population, and widespread poverty. However, the first strategy for independent Tanganyika was one of liberal development. Thus, the economy was open to international investors and geared toward export production. Tanganyika like many African countries experienced GDP growth in the early 1960s. Table 2.1 shows the growth Tanganyika experienced in the early period. Rapid economic growth was a goal of the first five-year plan from 1964-1969.

Table 5.1 GDP and Population Growth, 1960-1998 (percent)

CATEGORY	1962- 1968	1962- 1977	1978- 1983	1984- 1991	1992- 1994	1995- 1998
Real GDP	3.8	5.4	0.5	3.8	1.6	3.8
Population	3.1	3.1	3.2	3.2	3.1	2.8
Per Capita GDP	0.7	2.2	-2.6	0.6	-1.5	0.9

Source: Data from Arne Bigsten and Anders Danielson, *Tanzania: Is the Ugly Duckling Finally Growing Up? : A Report for the OECD Project "Emerging Africa"* (Uppsala, 2001).

However, in 1963, opposition to the British-installed Arab leadership in neighboring Zanzibar led to a coup. The leader of Tanganyika (Nyerere), and the leader of Zanzibar (Abeid Karume), agreed to unite Tanganyika and Zanzibar into one state –

Tanzania. Shortly thereafter, the growth that Tanzania had first experienced was threatened by declining prices for sisal, which was the staple of Tanzania's exports<sup>13</sup>. In addition, the first few years of independence had not led to a more equitable society and no little had happened to reduce illiteracy in Tanzania. These realities led Julius K. Nyerere to promote African socialism, which he operationalized as *Ujamaa*:

By the use of the word 'Ujamaa'...we state that for us socialism involves building on the foundation of our past, and building also to our own design. We are not importing a foreign ideology into Tanzania and trying to smother our distinct social patterns with it. We have deliberately decided to grow as a society, out of our own roots, but in a particular direction and towards a particular kind of objective. We are doing this by emphasizing certain characteristics of our traditional organization, and extending them so that they can embrace the possibilities of modern technology and enable us to meet the challenge of life in the twentieth century world.<sup>14</sup>

From the instant Julius Nyerere returned to Tanganyika in 1954 from school in England he led the struggle against colonial domination. Nyerere organized the Tanganyika African Association (TAA), which became the Tanganyika African National Union (TANU) in 1954. TANU sought majority rule for the indigenous Africans. Led by Nyerere, TANU won the elections in 1961, which were part of the process that was to lead to independence in 1961. Shortly thereafter in 1964, TANU joined with the Afro-Shirazi party of Zanzibar to form Tanzania. In May of that year, Nyerere announced the nation's objective(s), which he wanted to reach by 1980. The first objective was to raise per capita income. Secondly, Nyerere sought to increase the trained manpower of Tanzania with the hope of making it self-sufficient. Finally, he wanted the average life

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<sup>13</sup> Joel Krieger, ed., *The Oxford Companion to the Politics of the World* 2<sup>nd</sup> ed. (Oxford: Oxford University Press, 2001), 826-827.

<sup>14</sup> Julius K. Nyerere, *Uhuru NA Ujamaa: Freedom and Socialism* (Dar es Salaam: Oxford University Press, 1968), 2.



expectancy raised from 35 years to 40-50 years. The plan was to be implemented over three five-year plans.<sup>15</sup> The first five-year plan, as stated earlier, was geared towards a liberal economic model. The failure of the first five-year plan to address Tanzania's most pressing needs adequately led to more radical measures, most notably, the nationalization of foreign businesses. Nyerere rapidly developed a more critical stance towards capitalism and sought to turn inward to African traditions and practices for solutions. He attempted to craft an agenda that applied socialism to Tanzania, based on Tanzania's historical and cultural background. This led to the Arusha Declaration of 1967. The Arusha Declaration shaped Tanzanian social and economic policy for 18 years:

Tanzania embarked on a bold experiment to break with the colonial legacy. In 1967, following the adoption of the Arusha declaration as its blueprint for development, Tanzania turned sharply left by embracing a policy of socialism and self-reliance. This conception of development stressed a more equitable distribution of the country's wealth at the explicit expense of high rates of economic growth; state ownership of the "commanding heights" of the Tanzanian economy; the diminution and regulation of the private sector; de-emphasis of Tanzania's principal agricultural exports-coffee, cotton, and sisal- in favor of the creation of more than 300 import substitution industries owned by the state.<sup>16</sup>

Rather than looking solely to the West, Tanzania turned east for assistance to the Soviet Union and China while becoming active in the non-aligned movement and the struggle for the liberation of South Africa from apartheid. Nyerere shunned economic growth for its own sake, in pursuit of an equitable and just society.<sup>17</sup> But Tanzania

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<sup>15</sup> Rutman, 15-30.

<sup>16</sup> Barkan, 5.

<sup>17</sup> Julius K. Nyerere, *Freedom and Development | Uhuru Na Maendeleo : A selection of writings and speeches 1968-1973* (Oxford: Oxford University Press, 1973), 262-336.

remained at first on good terms with international funding institutions and western nations. Andrew Kiondo explains this particular phenomenon:

Tanzania's policy of socialism and self-reliance as briefly explained above could not change the country's financial dependence on the Western world. In fact, the economic history of Tanzania, which had been one of heavy financial dependency on the Western world, continued unaffected. At independence, Tanzania was mainly dependent on Great Britain, West Germany, and the United States. But after the Arusha Declaration, Tanzania diversified its sources of financial assistance by mainly concentrating on international financial institutions such as the IMF and the World Bank. By the late 1970s, the Nordic countries of Sweden, Norway, and Denmark had also joined the list of Tanzania's important donor countries. Substantial aid was also received from other Third World and socialist countries.<sup>18</sup>

Tanzania would heavily rely on foreign aid from the promulgation of the Arusha Declaration in 1967 until 2001. In fact, during the period of 1975-1984 only Egypt and the Sudan received more Official Development Assistance (ODA) and since 1990, only Egypt and Mozambique have received more ODA.<sup>19</sup> Tanzania's attempt to move away from dependency to self-reliance resulted in attempting Import Substitution Industrialization. Many underdeveloped nations, primarily in Latin America, during the 1950s and 1960s implemented Import Substitution Industrialization programs. Import Substitution is the effort to replace imports with locally-produced goods. The process entails a large commitment by the government to local industries, by subsidizing the industries and erecting tariff barriers to protect them against competitors. Adopting such a policy is anathema to a liberal international free trade order and raised flags for

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<sup>18</sup> Andrew Kiondo, "The Nature of Economic Reforms in Tanzania," in *Tanzania and the IMF: The Dynamics of Liberalization* (Boulder: Westview Press, 1992), 23.

<sup>19</sup> The World Bank, *African Development Indicators*, (Washington, D.C.: The World Bank, 2003), 285.

previous Nyerere supporters. Although the strategy of Import Substitution (ISI) looks attractive to nations that seek to control their own destiny, there is a considerable challenge in progressing through the different stages of ISI. P. Anyang Nyong'o presents the three stages of ISI:

- (1) Local production of mass consumption goods.
- (2) Producing intermediate goods locally (i.e. steel, paper, chemicals, fertilizers, petroleum refining, glass, etc.)
- (3) Developing a capital goods sector.<sup>20</sup>

Tanzania failed, as did most of the countries that took this path, to develop beyond the first stage. The path of development that Tanzania adopted cut to the core of the challenges that African nations faced following independence. Ostensibly, the fundamental nature of independence means to transcend dependent relations. It stands to reason that the requirement to rely on others' programs of "development" no longer exists. Further, it would seem that essential to achieving functional independence is the ability to produce some goods internally and not depend on imports from abroad. In order to achieve ISI the state has to play a central role in facilitating this process. As stated above, the state must subsidize this process as well as allocate social surpluses to help ISI industries maintain their existence. However, this increased state interaction conflicts with the fundamental objectives of the international economic order. International Funding Institutions seek to limit, indeed eradicate, state intervention in the economy. The result of Tanzania's policy since Arusha was increased marginalization in their region.

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<sup>20</sup> P. Anyang Nyong'o, "The Possibilities and Historical Limitations of Import-Substitution Industrialization in Kenya," 15-16.

As a member of the East African Community (EAC), a regional organization composed of Tanzania, Kenya, and Uganda, Tanzania was the lone member to attempt to develop outside the capitalist orbit. Kenya was unabashedly pro-capitalist, while Uganda, led by Idi Amin from 1971 to 1979, was no ally of the Tanzanian government. In the face of marginalization from the international economy and the East African Community, Tanzania's path was strewn with insurmountable hurdles. Moreover with the petroleum crises in 1973 and 1979, the collapse of the EAC in 1977, war with Uganda in 1979, and a decline in the terms of trade for sisal and coffee during the 1970s, disaster was imminent for the Tanzanian economy. The two oil shocks are critical since the majority of African nations rely on petroleum products heavily, ranging from 60 to 90 percent "of the energy required to power their factories." While African countries enjoyed low prices for oil in the 1960s (roughly \$2 a barrel), the decision of the Organization of Petroleum Exporting Countries (OPEC) in 1973 to cut production and the resulting oil crisis increased the price of oil to \$12 a barrel. By 1981 following the second oil shock, prices for a barrel shot up to \$34. The result for Tanzania was that higher percentages of their export earnings were used to purchase oil. By 1980, 60 percent of Tanzania's export earnings were used to purchase oil. For a nation that is committed to public owned industries and land, as well as a strong commitment to education and health care, Tanzania could ill afford to pay more for oil and strengthen its social infrastructure.

During the early 1980s, following the second oil shock and the end of a boom in coffee prices, economic growth in Tanzania could not keep pace with the rate of

population growth. This resulted in a decline of per capita income to a level from which Tanzania has yet to recover. According to Nyerere, "In 1988 Tanzania's per-capita income was \$280. Now, in 1998, it is \$140."<sup>21</sup> Cereal production and agricultural exports fell, while lack of foreign exchange created a balance of payments deficit. Social programs, already constituting a significant part of their GNP, combined with the balance of payment deficit, and subsequently Tanzanian foreign earnings were diminished. Thus, Tanzania (along with many African nations) sought assistance from the International monetary fund.<sup>22</sup> International Funding Institutions required Tanzania to devalue its currency, deregulate the marketing of agricultural products "by eventually privatizing...money-losing state-owned corporations." A lack of foreign exchange created a balance of payments deficit and from 1979-1985 the economy was near collapse. Nyerere was unwilling to accept the conditions of the IMF and World Bank. It was during this period that Tanzania embarked on a self-imposed Structural Adjustment Program (SAP) rather than accept what they considered faulty IMF and World Bank policy. Implementation of the Tanzanian SAP was stillborn after sharp debate within the government. Nyerere was steadfastly committed to the principles enunciated by the Arusha Declaration, while others sought to adopt a more liberal economic agenda. The debates over whether to accept the terms of the International Funding Institutions ultimately led to the resignation of Nyerere as Tanzania's president. Ali Hassan Mwinyi, who was more inclined to accept the conditionalities as the new president of Tanzania,

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<sup>21</sup> Ikaweba Bunting, "The Heart of Africa. Interview with Julius Nyerere on Anti-Colonialism," in *New Internationalist Magazine* issue 309 (January-February 1999).

<sup>22</sup> J. D. Fage, *A History of Africa* (London: Routledge, 1995), 505-506.

followed Nyerere. It was not long after the election of Mwinyi (1986) that Tanzania implemented an Economic Recovery program, requiring the eventual devaluation of the Tanzanian shilling. Since the acceptance of liberalization, Tanzania has increased its share of FDI. Tables 5.2 and 5.3 illustrate the increase in FDI.

Table 5.2 FDI inflows, 1989-2000 (millions of dollars) annual averages

1989-1994	1995	1996	1997	1998	1999	2000
15	150	149	158	172	183	193

Source: Data from United Nations Conference on Trade and Development, *World Investment Report 2001: Promoting Linkages* (New York: United Nations, 2001).<sup>23</sup>

Table 5.3 Inward and outward FDI stocks as a percentage of gross domestic product, 1980, 1990, 1995 and 1999 (percentage)

	1980	1985	1990	1995	1999
Inward	0.9	1.3	2.2	7.0	11.2
Outward	---	---	---	---	---

Source: Data from United Nations Conference on Trade and Development, *World Investment Report 2001: Promoting Linkages* (New York: United Nations, 2001).

As tables 5.2 and 5.3 indicate, Tanzania gained a significant increase in FDI inflows since the 1980s. This change began after the resignation of Nyerere in 1985 and the implementation of IMF structural Adjustment programs. However, the trade-off was that while Tanzania has experienced growth in investment, primarily FDI, there was a sharp drop-off in public expenditure for education and health care.<sup>24</sup> This is significant considering the number of educated Tanzanian's at independence. By any standard, the level was at crisis proportions. But with the adoption of the IMF Economic Recovery

<sup>23</sup> The *African Development Indicators 2003* shows FDI inflows for 1999 as 517 and for 2000 as 463.

<sup>24</sup> Mahmood Messkoub, "The Social Impact of Adjustment in Tanzania in the 1980s: Economic Crisis and Household Survival Strategies," in *Internet Journal of African Studies* No. 1 (April 1996).

Program (ERP) in 1986, Tanzania's currency, the shilling, was devalued from 17 shillings to the U.S. dollar in 1986 to 193 by 1990. Coupled with an exorbitant rise in inflation, the average Tanzanian suffered a decline in their quality of life (i.e. access to health care and education). This has not deterred the government, however, in attempting to increase Tanzania's integration in the world economy. The government has:

Since 1990...made determined efforts to attract substantial inflows of private investment into the country. Key measures taken have included the promulgation of the Investment Promotion Act and the creation of the Investment Promotion Centre. A greater role for the private sector is envisaged in the medium-term as the direct involvement of the public sector in productive and communal activities is progressively reduced. In 1993'94 work continued on amendments to the Companies Ordinance and to the Investment Act. These amendments are intended to remove remaining obstacles to private sector participation in the economy and, at the same time, enable the country to benefit more adequately from such participation.<sup>25</sup>

Consequently, Tanzania now has few restrictions on the movement of IFC. The increased movement of International Finance Capital in Tanzania has been directed towards the mining industry. Mining production, particularly gold, has become the leading sector in Tanzania (Table 5.4). The former dominance of the agricultural sector, coffee, cotton, and sisal (during the 1960s and 1970s), has waned slightly.

Table 5.4. Tanzania: Composition of Exports, 1991-2001 (In percent of total exports, fob.)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<u>2001</u>										
Traditional exports	51.6	59.9	59.6	65.6	57.1	58.3	58.4	60.5	55.5	44.1
29.8										

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<sup>25</sup> *The Rolling Plan and Forward Budget for Tanzania for the Period 1994/1995 – 1996/1997* vol. 1 (Dar es Salaam, Tanzania: Government Printer, 1994), 5.

Coffee 7.4	21.8	15.4	22.3	22.5	21.2	18.2	16.0	18.5	14.1	12.6
Cotton 4.3	19.1	25.3	18.2	20.5	17.9	16.8	17.5	8.1	5.2	5.7
Sisal 0.9	1.0	0.3	0.8	1.0	0.9	0.7	1.2	1.2	1.3	0.8
Tea 3.7	5.5	5.8	8.8	7.7	3.5	3.0	4.3	5.2	4.5	4.9
Tobacco 4.6	2.7	7.0	4.0	4.0	4.0	6.6	7.2	9.4	8.0	5.8
Cashew nuts 7.3	1.4	6.1	5.4	10.0	9.5	13.1	12.2	18.2	18.6	12.7
Cloves 1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.7	1.5
Nontraditional exports 70.2	48.4	40.1	40.4	34.4	42.9	41.7	41.6	39.5	44.5	55.9
Minerals 38.9	5.8	10.6	16.0	5.8	6.7	7.5	6.9	4.5	13.5	26.9
<i>Of which: gold</i> 32.2							0.2	0.5	6.4	17.0
Manufactured products 7.2	24.9	16.6	12.1	15.0	16.3	16.4	14.9	6.1	5.5	6.5
Fish products 12.5	0.0	0.0	0.0	0.0	0.0	0.0	7.6	12.6	10.5	11.5
Horticulture 1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.5	1.6	1.5
Other nontrad. exports 10.2	17.7	12.9	12.3	13.6	20.0	17.8	11.6	14.8	13.4	9.5
Total 100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data from International Monetary Fund, *Tanzania: Selected Issues and Statistical Appendix* (Washington, D.C.: International Monetary Fund, 2003), 125.



## Conclusion

The resulting effects are that Tanzania remains dependent on the agricultural sector. Agriculture accounts for 46 percent of the Gross Domestic Product (GDP) while providing 85 percent of the exports.<sup>26</sup> Foodstuffs, manufactured goods, machinery, and transportation all are imported. No significant attempt is made to eradicate this 100-year dependency. By and large the Tanzanian economy relies on the export of the same agricultural crops it did in 1890 as a protectorate under Germany, and after World War I as a British Mandate. The corruption that Nyerere so deftly avoided by prohibiting investment from elected officials has now reared its ugly head again. Corruption is becoming an everyday experience. By 1981, Nyerere had increased enrollment in primary schools sevenfold and threefold in secondary schools over what it was in 1964. The literacy rate improved dramatically during his regime. Since the imposition of the World Bank and IMF, literacy rates have steadily decreased. Tanzania at present is relegated to adhering to the program of the IMF and the World Bank's Heavily Indebted Poor Core Countries Initiative. The result is the "four times as much is spent on debt repayment as on primary education, and nine times as much on basic health." To qualify for debt relief from the HIPC initiative, Tanzania has to go through a six-year waiting period and accept complete liberalization of their economy. Tanzania has accepted rapid integration into the international economy. Increased privatization, combined with enhanced structural adjustment has fixed Tanzania's place in the international economy.

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<sup>26</sup> *African Economic Outlook*, 283.

It seems inconceivable that Tanzania's fate in this world capitalist system could have been otherwise. Without the cooperation of other African nations, combined by the fact that Tanzania is not endowed with an abundance of natural resources, the chance for being independent and socialist was less than zero. André Gunder-Frank offered a sobering summation of this state of affairs:

The Third World has long been, and for the foreseeable future will remain, an important part of the world capitalist system. Indeed...the Third World is destined to play a major role in the attempt of capital in the world capitalist economy.<sup>27</sup>

Tanzania remains one of the poorest nations in the world. The solutions imposed by the World Bank and IMF are grounded in an anachronistic 18th-19th century notion of comparative advantage. Tanzania provides an excellent example of a former non-capitalist economy making a transition to a free-market economy. To date the results have been uneven and that is being kind. While there has been an increase in IFC and Tanzania is more open to private companies, consequently placing them in good standing with international lenders, Tanzania remains mired in poverty. By 2001 the Tanzanian stock exchange accounted for 4.22% of the Gross Domestic Product continuing the path of financial liberalization. This path has yet to provide substantive benefits for those mired in poverty and from all appearances benefits only the elite – Tanzanian and foreign. In fact, it is a bit surprising that of the 18 African countries with stock exchanges, Tanzania accounts for one of them – in light of the wretched nature of

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<sup>27</sup> Andre Gunder Frank, "Crisis of Ideology and Ideology of Crisis," in *Dynamics of a Global Crisis* (New York: Monthly Review Press, 1982), 138.

Tanzania's economy.

## CHAPTER SIX

### KENYA

#### Introduction

If one wants to analyze the impact of colonialism and the attendant transition to neo-colonialism, Kenya provides one of the more interesting examples. Kenya perhaps more than any other African country, contains in its history colonialism, neo-colonialism, indigenous resistance to those concrete realities, Pan-Africanism, and a progressive role of women in the struggle against European hegemony. This chapter will analyze the continuing dialectic in Kenya between indigenous struggle for self-determination and the corresponding arbiter of capital.

#### Historical Context

The history of Kenya is similar to that of many African countries. Their pre-colonial history is to a great extent determined by Kenyans' relationship to the land. It was during the nineteenth century that the average Kenyan's life was influenced by the spread of agricultural settlements throughout the Kenyan Highlands. The increase in migrant pastoralists was pervasive and by the late 19<sup>th</sup> century farmers occupied most of central Kenya and the highlands. Consequently, this led to the rise of the closely related cultural and linguistic traditions of the Kamba, Gikuyu, and Meru at The majority of Kenyans moved and settled into autonomous ethnic farming communities.<sup>1</sup> The importance

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<sup>1</sup> Charles Ambler, *Kenyan Communities in the Age of Imperialism: The Central Region in the*

placed on farming engendered notions of self-reliance and self-sufficiency.

Unfortunately, it also fostered conflicts between the various ethnic groups. As is so often the case, the schisms that were created would later prove to facilitate European advance into the interior by sharpening and exploiting the conflict between the indigenous ethnic groups.<sup>2</sup> These conflicts were often over land, which was cherished by the indigenous groups. Jomo Kenyatta points to this fact in *Facing Mount Kenya*:

In studying the Gikuyu societal organization it is necessary to take into consideration land tenure as the most important factor in the social, political, religious, and economic life of the society. As agriculturalists, the Gikuyu people depend entirely on the land. It supplies them with the material needs of life, through which spiritual and mental contentment is achieved.<sup>3</sup>

As a consequence, land tenure is an essential concept for understanding the politics of Kenya. Controlling the land became a necessity for the pastoralists but the geopolitical interests of European capital would undermine the relative serenity –when compared to colonialism- enjoyed by the indigenous Kenyan people. As was the case in most African countries, Kenya became a victim of European colonial expansion. To be more specific, Kenya became a satellite in the grand scheme of European imperialism, which spanned the globe accelerating Western industrialization and accumulating wealth. Although European colonizers had occupied South Africa since the 17<sup>th</sup> century, the Berlin Conference precipitated their advance to Kenya. At the outset the partition of East Africa (Kenya, Tanzania, and Uganda) was designed by the British to solidify the Suez

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Late Nineteenth Century (Yale University Press, 1988), 9-14.

2 Ibid., 31.

3 Jomo Kenyatta, *Facing Mount Kenya: The Tribal Life of the Gikuyu* (Ney York: Vintage Books, 1965), 22.

Route to India. Kenya's location made it an integral part, indeed the primary target, of Britain's strategic interests.<sup>4</sup> Apparently it did not take long for the British to recognize that in addition to Kenya's strategic location on the route to India, the potential also existed for agricultural production in the highlands of Kenya and the tropical climate in other areas was suitable for the cultivation of crops such as cotton, rubber, cocoa, coffee, and sugar.<sup>5</sup> As a result, what began as a strategic venture almost immediately transformed into an economic one. The colonizers not only solidified their route but also obtained a new locale for supplying goods and resources to their mother country. It was in this context that British colonization of Kenya came to fruition:

In 1895 the British declared the protectorate (the East African Protectorate; later Kenya), the imposition of western laws, collection of taxes, recruitment of labor, and many other necessary components of the colonial administration required the formation of a central bureaucracy....The key to the successful extension of British rule over Kenya was the policy toward the Masai, whose power in the interior could have seriously obstructed British penetration toward Uganda. But the Masai were preoccupied with raids, epidemics, and famine, the latter two providing an opportunity for British assistance which impressed the Masai....The highlands of Kenya, like those in Central and Southern Africa, led to deliberate colonization schemes in which the British supported the apportionment of land to white settlers, the recruitment of cheap African labor, and blatant racial discrimination.<sup>6</sup>

As mentioned earlier, the British were able to exploit already existing rifts between ethnic groups. A prime example of their success is the British co-option of the Masai to ward off resistance from other ethnic groups. This was a key factor in securing

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<sup>4</sup> M. P. K. Sorrenson, *Origins of European Settlement in Kenya* (Nairobi: Oxford University Press, 1968), 9.

<sup>5</sup> Ibid., 4.

<sup>6</sup> Joseph Harris, *Africans and Their History* revised edition (New York: New American Library, 1987), 193.

the British position in addition to the dynamic of building a railway, the transfer of Uganda to the East African protectorate, and the arrival en masse of European settlers. Railway construction was facilitated to further advance the British into Kenya's interior and link it and Uganda with the coast, with the objective of reaching the Lake Victoria basin by 1901.<sup>7</sup> We should emphasize that the sole purpose was to transform East Africa into a source and exporter of raw materials for Europe.<sup>8</sup> In due course, Kenya was involved in a dependent relationship and at the behest of the interests of European capital.

Europeans, mainly from Britain and South Africa, were encouraged to immigrate to Kenya and help facilitate this noxious form of "development." The colonizers were expected to "develop a viable agricultural economy" that would provide the needed capital for the construction of the railway, which would transport goods and resources to the coast for export.<sup>9</sup> By 1902 the white settlers formed an association of planters and farmers that demanded the highlands of Kenya be reserved only for their use. Predictably the result was that indigenous Africans were prohibited from owning the most fertile land. If that was not enough, they were not allowed to grow coffee (which was the most lucrative crop), more land was seized from them, taxes were imposed, and stipulations were made that Africans must provide labor for public works and settled farms/plantations.<sup>10</sup> Consequently, Africans who had been self-sufficient pastoralists before the arrival of Europeans were now wage earners working for the Europeans.

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<sup>7</sup> Unesco, *General History of Africa* p. 73

<sup>8</sup> Exactly how this relationship has developed throughout Kenya's history, particularly during the period under review, is critical for understanding the success or failure of independent Kenya.

<sup>9</sup> D. Pal Ahluwalia, *Post-colonialism and the Politics of Kenya* (New York: Nova Science Publishers, 1996), 29.

<sup>10</sup> Unesco, *General history*, 178.

Africans were systematically deprived and stripped of direct access to the economic production, all the while being the engine for British colonial development. By the time of WWI, Kenya was being advertised in England as a “winter home for aristocrats” and settlers were granted by the Crown Lands Ordinance an extended lease from 99 years to 999 years.<sup>11</sup> Colonialism was now firmly entrenched in Kenya and East Africa, but this did not happen without resistance.

#### Indigenous Resistance to Colonial Occupation

While it is true that Kenya has a significant diversity in ethnic groups, the Gikuyu<sup>12</sup> are the largest group accounting for 20% of the population. The Gikuyu were also affected the most by the British appropriation of the Kenyan highlands since the highlands had been solely populated by the Gikuyu for years. Other groups in Kenya had a sufficient amount of surplus land to mitigate the impact from the arrival of the British; however, the Gikuyu had no such luxury.<sup>13</sup> It was the Gikuyu who bore the brunt of land alienation, low wages, and racial discrimination. The combination of these factors led to the protracted resistance of the Gikuyu to colonialism.

The Gikuyu first attempted to address the land issue by forming the Gikuyu Association in 1920. However, it was not long after the formation of the Gikuyu Association that a more militant group, the East African Association (EAA) was formed, which included the Buganda and other Africans throughout Nairobi. The EAA led by

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<sup>11</sup> Angelique Haugerud, *The Culture of politics in modern Kenya* (New York: Cambridge University Press, 1995), 7; Unesco, *General History*, 174.

<sup>12</sup> Gikuyu is also spelled Kikuyu.

<sup>13</sup> Carl Rosberg Jr. and John Nottingham, *The Myth of “Mau Mau”; Nationalism in Kenya* (NY: Praeger, 1966), 18.



Jesse Kariuki and Harry Thuku not only protested land alienation but tax and labor laws and the law stipulating that Africans must carry identification cards.<sup>14</sup> This “pass” law, as were many of the modes of domination in Kenya, was fashioned after the South African pass laws. Moreover, many of the early settlers in Kenya migrated from the South African Cape colony.<sup>15</sup> The radical activity of the EAA resulted in the arrest of Harry Thuku in 1922. Thuku is still honored by Kenyans as a founding father in the struggle against colonialism.<sup>16</sup> Although the detention of Thuku represented a setback for indigenous activists, the formation of activist organizations would actually rise after Thuku’s arrest. In 1924 the Kikuyu Central Association (KCA) was formed and by 1928 the future president of Kenya, Jomo Kenyatta, became KCAs Secretary-General and editor of their journal. It was soon thereafter that Kenyatta traveled to London to present the grievances of the KCA to the British government. This effectively placed Kenyatta and the KCA firmly in the British government’s consciousness. The colonial regime recognized the impact the movement potentially wielded and declared the KCA illegal in 1940.<sup>17</sup> However, it should be pointed out that even though resistance at its most nascent stages was largely a Gikuyu endeavor, the struggle quickly transcended Gikuyu borders and spread throughout Kenya. The expansion of resistance beyond the Gikuyu undermined colonial practice that

Confined African political organizations to single districts, which state officials usually envisioned “a constellation of ethnically exclusive

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<sup>14</sup> Harris, 227.

<sup>15</sup> Ibid., 227-228.

<sup>16</sup> The famous Kenyan author Ngugi Wa Thiong’o discusses Thuku in his classic *A Grain of Wheat*.

<sup>17</sup> Harris, 227-228.

districts that incorporated deeply rooted, isolated, and mutually antagonistic tribes.” This grid of districts overlay formerly autonomous pre-colonial communities that did not fall under the authority of any indigenous state.<sup>18</sup>

Although the colonial government outlawed the Gikuyu Central Association in 1940, the post-1940 period represents the high tide of indigenous resistance in Kenya. In 1944 a small cadre of Africans, which included ex-slaves, organized the Kenya African Union (KAU). In 1947 Kenyatta became the president of KAU and thereafter an icon of Kenyan resistance to colonialism. According to Harris, the KAU provided the impetus for more militant political action in the late 1940s. The KAU excoriated the colonial regime for “rising prices-low wages, increased unemployment, unused land in the ‘white highlands’ while Africans were being evicted and sent to overcrowded reserves and [generally insulted]” and intensified the masses dissatisfaction with colonial policies.<sup>19</sup> The result of the increased protest and mobilization was the formation of the Kenya Land and Freedom Army (the Mau Mau) and a fierce conflict in which 95 Europeans were killed and over 13,000 Africans died. The colonial regime responded by intensifying its suppression of the indigenous population, arresting Jomo Kenyatta, and instituting a national emergency that lasted from 1952 to 1960.<sup>20</sup> The timing of the increased violent clashes is significant since Kenya would soon become an independent nation.

A very important variable that few political scientists account for is the role of

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<sup>18</sup> Haugerud, 40.

<sup>19</sup> Harris, 228.

<sup>20</sup> Jomo Kenyatta is commonly referred to as the leader of the “Mau Mau” however, Dedan Kimathi was from all accounts the true leader of the Kenya Land and Freedom Army. In fact, the British made Kimathi’s capture a priority and eventually hung him. Ostensibly, the capture and murder of Kimathi ended the “Mau Mau” rebellion.

women in Africa's struggle against European hegemony. Cora Ann Presley provides some insight into women's contribution to Kenyan struggle:

First, the British colonial government was quite aware of the potential power of women. District commissioners in their annual reports frequently chronicled individual female activity...second, through the collection of oral data, it has become evident that there was a nucleus of women who took as their task the organization of rural resistance to colonialism in the central province of Kenya.<sup>21</sup>

Between 1912 and 1930 Kenyan women protested the labor laws of the government that stipulated African women and children must work in coffee estates and government road projects. Women protested by supporting a petition of the East African Association in 1919 and by utilizing protest songs. Protest songs combined with plays and poetry, successfully limited colonial policies and helped lead to the success of Kenyan activism. The arts were and to a large extent still are important components to building political awareness in Kenya. Women would sing debasing songs about chiefs who complied with the colonial regimes policies. The songs ranged from praising Harry Thuku to assailing the policies of missionaries, who sought the prohibition of female genital mutilation. Many Gikuyu women placed a great deal of significance on female genital mutilation because it symbolized a transition to womanhood. Thus, in the minds of many Kenyans, an attack on the practice equated to an attack on Gikuyu culture. Resistance by Gikuyu women empowered other African women in Kenya and the collective Kenyan African community. The central role played by Gikuyu women was manifested in the "Mau Mau" rebellion. Gikuyu women led the oath taking ceremonies,

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<sup>21</sup> Gary Okihiro, ed., *In Resistance: Studies in African, Caribbean and Afro-American History* (Amherst: University of Massachusetts, 1986), 53.

where initiates pledged never to sell Gikuyu soil, nor report Africans to Europeans, and to give their lifelong allegiance to the “Mau Mau.” The story of activist Kenyan women in many ways is a departure from standard descriptions of African resistance to colonialism. More importantly, it underscores how indigenous Africans viewed their relationship to the land and its significance to their cultural practices. Consequently, in our examination of the power of IFC on African development, the ability of the indigenous Kenyans to reclaim their land and cultural practices registers as a significant means of describing this relationship.

#### Independence

Immanuel Wallerstein argues that “In any changing society it is always those who rule that hang onto the best of what is left of the old order, and at the same time take the best of what is offered by the new, [leading in time to] a considerable diversification.”<sup>22</sup>

The constant push for independence by the Gikuyu, particularly the Mau Mau, created an interesting dialectic whereby the colonial regime was forced to respond in ways other than sheer violence. Kenya, as many African countries, was increasingly becoming ungovernable. The result was that the colonial government in the 1950s introduced limited land reform, educational opportunities to create an African intellectual elite (i.e. a buffer class), and granted indigenous Africans the franchise in 1956. The significant point is that the British had to create a governing class that would provide an open environment for capital. This was exceedingly necessary since the struggle for independence in Kenya had produced dynamic, charismatic leadership. In this vein,

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<sup>22</sup> Owen Lattimore, ed., *Inner Asian Frontiers of China* (Boston: Beacon Press, 1962).

indigenous leadership in Kenya reflected the type of leaders that came to the fore throughout Africa and the “Third World.” Amilcar Cabral, Kwame Nkrumah, Julius Nyerere, Fidel Castro, Ché Guevara and others are some of the more prominent names from this international progressive leadership. Aside from the oft-mentioned Kenyatta, the struggle in Kenya produced Tom Mboya, Ngugi Wa Thiong’o, Oginga Odinga, and many others. Mboya was a dynamic young leader of the Kenya Federation of Labor. He worked on several fronts challenging white supremacy at every step. His leadership tactics included leading protests for human labor laws, petitioning for the redistribution of indigenous land, and serving as a strong advocate of Pan-Africanism. It was during Kenyatta’s incarceration that Mboya, along with Odinga, formed the Kenya African National Union. KANU was comprised of the larger ethnic groups in Kenya – the Gikuyu, Luo, and Kamba. The power created by this alliance carried KANU to victory in the election of 1961 and consequently led to KANU demanding the release of Jomo Kenyatta. These developments led to Kenya’s declaration of independence in December 1963.<sup>23</sup> However, it immediately became clear that “independence” would have to respond to the interests of capital:

In order to avoid labour rebellions in the colonies, Lord Hailey argued, it was necessary to organize appropriate industrial relations between employers and workers. Such relations could not be developed unless trade unionism – guided unionism – was allowed. The same argument was advanced with regard to the demands of the African nationalists; if they could be brought in to share power and be responsible, their political enthusiasm could be converted from rebellion...to political responsibility within the empire’s global economic goals...colonial progress, hand in hand with the formation of a “responsible middle class” which could guarantee capital investment in and profit repatriation from the colonies

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<sup>23</sup> Harris, 228-230.

after independence...was the essence of neo-colonialism.<sup>24</sup>

The strong point of colonial activity in Kenya was a result of their clearing the way for international finance capital. In order for the colonizers to augment their iron grip on Kenya, duplicity had to be maintained between the white settlers and the British government. The nature of this duplicitous arrangement was that subsidies were granted to the settlers, while oppressive laws generated a market of cheap labor. In fact, the African peasant producers contributed more to the economy than the settlers. However, settler needs remained the only priority of the colonial regime. It was as early as 1905 that import-export houses were established to suit the settler consumers' needs and for Kenya to supply Consumer goods throughout the East African region.<sup>25</sup> Before long, in response to the period of increased rebellion, the colonial government created "The Colonial Development and Welfare Act of 1940" to co-opt colonial nationalists by consolidating colonial interests with a new "petty bourgeoisie" class. Therefore, the granting of independence in no way signified the end of Western dominance. Unfortunately, Kenyatta assured the "former" colonial regime that unlike Cuba, nationalization would not take place in Kenya. This move by Kenyatta certainly resulted from a recognition not only of the global context of which Kenya operated but the trajectory along which the international economy was going. This assurance went beyond rhetoric as a Foreign Investment Protection Act (1964) was implemented one year into independence. This act granted foreign investors a "certificate of approved enterprise,"

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<sup>24</sup>Peter Anyang Nyong'o, *African Politics and the Crisis of Development* (Chicago: Africa World Press, 1989), 15-16.

<sup>25</sup> Ibid., 12.

which ostensibly would further the development of Kenya. The act provided companies with the right to “repatriate profits, loans, interest on their loans and the approved proportion of the net proceeds of sale of all or any part of the approved enterprise.”<sup>26</sup> The colonial government had succeeded in creating a buffer class that was closely linked to the objectives of international finance capital. This new class overwhelmingly held positions within the new independent government. The problem was exacerbated by Kenya being a one-party state.

Kenya remained a one-party state until 1966, when Odinga resigned from the vice-presidency and formed the Kenya People’s Union (KPU). During this turbulent period, Kenya experienced marked growth to their economy, which led western observers and investors to applaud their “transition.” The two-party Kenyan state was short-lived as Odinga was arrested in 1969 and trade union leader and government minister, Ton Mboya, was assassinated. During this period political power coalesced around Jomo Kenyatta and the Kenya African National Union. Kenyatta effectively led Kenya as a one-party state until his death in 1978.

The transition from Kenyatta to Daniel Arap Moi hastened the decline of good governance or what was left of good governance. Although Kenya became increasingly corrupt, this did not initially hinder Nairobi from becoming the leading industrial and commercial center in East Africa. In theory the standard of living is changed when the pattern of production shifts from the agricultural sector to the industrial sector and when there is a shift from labor-intensive labor to capital-intensive labor. Yet this did not

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<sup>26</sup> Ibid., 21.

increase the standard of living for most Kenyans. Table 6.1 illustrates the decrease in private capital flows and foreign direct investment:

Table 6.1 Kenya Aid and Financial Flows (millions of dollars) Net private capital flows, foreign direct investment, and external debt (present value % of GDP)

1990	1997	1990	1997	1990	1997	1997
124	-87	57	20	7,056	6,486	49

Source: Data from The World Bank, *Entering the 21<sup>st</sup> Century World Development Report 1999/2000*

(Oxford: Oxford University Press/The World Bank, 2000), 270.

Table 6.1 clearly shows a decrease in capital flows, although it must be pointed out that donors did not withdraw *en masse* until 1997. The hesitancy for donors to leave Kenya probably resulted from Kenya's attempt at a liberal trading regime. The government made a conscious effort to create an open if not always transparent trading regime. In order to attract investment:

Kenya has a relatively long history of structural reforms to liberalise its economy. Earlier reforms included the removal of quantitative import and price controls, the abolition of foreign exchange controls and the revision of labour laws to make them more flexible and in line with private sector requirements.<sup>27</sup>

Kenyan leadership gained a reputation for institutionalizing corruption. During the period of enhanced liberal reform, Daniel Arap Moi was the president. Moi's regime, without exaggeration, was corrupt to its core. Although Kenya did not become officially become a one-party state until 1982, it had operated as a one-party state during the leadership of Kenyatta. Kenyans were not only damaged by corruption, but by investors turning away from Kenya as well. The table below illustrates the impact of corruption on Kenyan society:

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<sup>27</sup> Ibid.



Table 6.2 GNI Per Capita-  
Kenya

Kenya										
1980	92	93	94	95	96	97	98	99	2000	
01										
440	330	250	250	260	320	350	360	360	250	350

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

By 2001 the total debt per capita was \$190.00, which means that the average Kenyan was barely out of debt. However, that is misleading when we take into account the average monthly earning in the various industries:

Table 6.3. Wages in Kenya 1980 – 1997

Occupation	1980	88	89	90	91	92	93	94	95	96
97										
Agriculture	59	53	48	47	45	---	---	---	---	---
39										
Manufacturing	169	139	136	134	121	---	---	---	---	---
94										
Mining	157	104	106	101	93	---	---	---	---	---
96										
Construction	133	98	96	99	95	---	---	---	---	---
80										

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The above is a stark contrast to the GNI for Kenya. One can see that the average Kenyan income was well below the GNI. In fact, 52 per cent of Kenyans “live below the poverty line of one U.S dollar a day.” As in most cases, poverty is experienced more in rural areas where little development has taken hold. Much of the Kenyan poverty can be attributed to corruption. Following the leadership’s protracted acknowledgement of the need for reform and went to multiparty (1991) elections, Kenya still received \$6 billion FDI in 1992 and \$2 billion in 1993.

## Conclusion

Kenya was situated during the colonial era as a benefactor of colonial interests. Kenya, as did many African countries, developed in the context of colonial oppression. This factor led to two developments: (1) the creation of an indigenous elite allied to neocolonial interests and (2) the indigenous struggle for the right to self-determination. These two realities came to a head during the Kenyatta era and resulted in the neocolonial indigenous elite routing any hopes of uncompromised indigenous development.

Rather than “set forth a new man and woman” as Fanon offered, Kenyan society gradually transformed into one with large gaps between the haves and have-nots. That development was in concurrence with Kenya creating Free Trade Zones (EPZ’s), protecting foreign businesses with the foreign Investment Protection Act, and broadly embracing the neoliberal agenda of clearing the path for IFC. The desire to attract IFC resulted in an unwillingness to work through the process of diversifying their economy. Thus, as any textbook on international economics explains, reliance on agriculture as a primary means of developing results in opening the economy to the vagaries of the market. These come in many forms such as, bad weather, poor international prices of agricultural commodities, poor infrastructure, drought, poor crop husbandry, and high cost of farm inputs all wrecked havoc on the Kenyan economy and particularly those who could ill-afford it the most.

In the final analysis, Kenya “developed” into a country where the richest 10% had a 36.1% share of the income and the richest 20% had a 51.2% share. By 1999 27% of

Kenya's population lived under one U.S. dollar a day. By 2001, 50% of Kenya's population lived under the poverty line (\$2 a day). By any standard, Kenya's integration in the international economy has been an abysmal failure. While corruption certainly is responsible, it could not have taken place without a duplicitous arrangement between Kenya's leaders and the international financial community.

## CHAPTER SEVEN

### NIGERIA

When the colonial state was terminated in October 1960, most Nigerians associated the transition with progress and thought that the end of underdevelopment was in sight...Most of the economic and social indicators were interpreted as positive; Nigeria was Africa's largest country, with a population of 55.6 million; it was Africa's largest single market, with a strategic location and an endowment of rich mineral and agricultural resources on which many industries could be built; it had a rapidly expanding population with an increasing standard of living and a definite demand for "sophisticated product of science and industrialization"; the people were innovative, enterprising, and ready for change....and all sectors of the economy were capable of expansion.

-Toyin Falola, *A History of Nigeria*

#### Introduction

Discussion regarding Africa's potential as a global political, economic, and cultural force has persisted for decades. People from various settings, particularly African people, are quick to point to the continent's vast resources - many of which are untapped – as a way of countering the pessimistic attitude toward the present. Further, many look backward to the Garvey movement and Black power movement in the United States as well as the Black consciousness movement spearheaded by Steve Biko to promote the view that Africa had and has vast potential. In that vein, attempts to grapple with the continent's present status are often accompanied by an inveterate focus on Africa's past glories. To be sure this research seeks to illuminate future possibilities after critically examining pre-colonial developments. With the above in mind, it is no exaggeration to say that Nigeria provides the best example of a country with a glorious past and promising future. Contextually, Nigeria serves as a microcosm of Africa.

Nigeria presents us with the opportunity to observe a country with a far-reaching and notable pre-colonial past; an example of indigenous resistance to imperialism; a tragic victim of European colonialism and the arbitrariness of boundaries that accompanied that venture; and finally, a disjointed effort to assert itself as a political, economic, and cultural power.

### Historical Context

Nigeria has an extremely rich history that dates far back into the pre-Christian era. Nok civilization noted for its agricultural development and tool-making industries existed around 900 B.C. Nok culture was the source of much of the trading and communication between an assortment of West African communities in the forest and savannah regions. The cultural vibrancy that flourished in that region gave birth to numerous groups that cultivated their own particular identity. Oddly enough, the combination of a rich cultural tradition and the development of many independent groups have created significant problems in creating a Nigerian identity that supercedes any other identity. More than 250 ethnic groups live in Nigeria today and are all victims of British imperialism in one way or another.

The British first established a protectorate on the coast in 1851, setting in motion Nigeria's introduction to colonialism, although Nigeria proper was not created until 1914. To be sure, 1851 does not represent the first contact between Nigerians and Europeans. Nigerians were regularly enslaved and exported to the Americas from the 16<sup>th</sup> to the 19<sup>th</sup> centuries.<sup>1</sup> The modification of Nigeria's role in the world system was a reaction to

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<sup>1</sup> L. I. Izuakor, "Patterns of Pre-Colonial Exploitation" in *Britain and Nigeria: Exploitation or Development?* Edited by Toyin Falola

British policy towards slavery in the 19<sup>th</sup> century. While slavery became morally repugnant to Westerners, other modes of domination, became more feasible and were seen as morally justifiable:

It is possible to discern two distinct changes in the British pattern of exploitation of Nigeria during the period 1830-1900. The first was the shift from the slave – to ‘legitimate’ trade. This was facilitated greatly by the suppression of the slave trade and slavery throughout the British Empire. The second change concerned the gradual shift of the ‘frontier of opportunity’ from the coast to the hinterland. The successful penetration of the hinterland by the British was facilitated by the invention of the steamship and by the use of quinine as an antidote to malaria fever.<sup>2</sup>

Nigeria, along with the Gold Coast, Niger, Sierra Leone, and the Gambia (West Africa) became a central location for British imperialism in Africa. The strategic shift from exporting slave labor transformed into exporting palm oil so quickly that the Niger delta region became known as the Oil Rivers.<sup>3</sup> That name would take on an entirely new meaning in post-colonial Nigeria. In addition to the transition to palm oil as the new major product, the economic transformation included the export of native cloths, cotton, and ivory.<sup>4</sup> As important to British imperial strategy during the time was the installation of what Ake called the “monetisation process.” The process began with the importation of silver coins from England, which gradually created dependence on British currency, culminating in the introduction of paper currency in 1916.<sup>5</sup> As the case with other African countries, indigenous currency or forms of barter were outlawed and British currency was the only accepted means of carrying out financial transactions. The

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<sup>2</sup> Ibid., 41.

<sup>3</sup> Basil Davidson, *Let Freedom Come* (Boston: Little, Brown & Company, 1978), 63-65.

<sup>4</sup> Izuakor, 43.

<sup>5</sup> Davidson, 67.

successful transition from slave and barter trade to wage labor was now complete. The British were able to assuage the moral sensibilities of their public while continuing to exploit African labor and resources to their benefit. But the transition was not simply a matter of legislating particular practices. British multinational firms would play a central role in transforming the Nigerian economy.

British multinational firms that were consolidated in 1879 into the United African Company by Sir George Taubman Goldie carried out the colonization of Nigeria. Goldie structured a duplicitous relationship between the company and indigenous African chiefs. Goldie was able to carry out his plans because of the wars occurring in the region. The more prominent conflicts were the Fulani versus Hausa and wars in Yorubaland. These wars reflected a strong commitment to ethnic identity and allowed for the relatively seamless cooptation of local leaders. The cooptation was so thorough that Julius Ihonvbere and Toyin Falola state “By 1900, the subjugation of the pre-colonial power-elites, and the incorporation of the Nigerian formation into the world capitalist system was complete.”<sup>6</sup>

The cooptation of Nigeria into the larger world system was aided by the proletarianization of the peasants. Following the introduction of British currency, Nigerian peasants were relegated to becoming cheap wage laborers for British colonists. Additionally, as was the case with all the colonizer–colonized relationships, taxes had to be paid in the new currency as a way of compelling the colonized to use the new currency. Later during the period of colonization, marketing boards were introduced to

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<sup>6</sup>Falola and Ihonvbere, 205.

further entrench Nigerians within this particular mode of domination. Marketing boards set prices and created a monopoly over production. The lack of any viable alternative for Nigerian farmers left them super-exploited. In fact, “The British colonial state in Nigeria made a 733 percent profit on peanuts and a 559 percent profit on palm oil, of which little or none was passed along to the African producers.”<sup>7</sup> Thus, it may be incorrect to even characterize the colonial process as the illusion of economic development. Very little pretense was made that indigenous Africans were benefiting from this process. The formation of marketing boards set in motion a process of underdeveloping the Nigerian agriculture industry, which has yet to recover, particularly once the variable of mining was added to the equation. Chima J. Korieh provides an excellent summary of the impact of marketing boards in Nigeria:

The repressive actions of the marketing boards exacerbated the agricultural crisis because farmers were unwilling to re-invest in agriculture. The dilemma faced by the peasant producers led to the dramatic decline in the officially marketed output of crops for export in Nigeria, while the world market price for these products was rising. Low producer prices and the instability in the markets created conditions that led many farmers to abandon extensive commercial agriculture. As a result of the contradiction inherent in the activities of the marketing boards, they were abolished in June 1986 in Nigeria.<sup>8</sup>

### Independence

The agricultural industry has deteriorated from its once dominant role in the economy to playing second fiddle to the mining industry. The government made a strategic decision to focus on encouraging foreign direct investment in the mining industry by creating an open climate for private investors. The added focus on mining

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<sup>7</sup> Schraeder, 110.

<sup>8</sup> Chima J. Korieh, “Agriculture,” in *Africa: Volume 5 Continental Africa* (North Carolina: Carolina Academic Press, 2003), 444.



was coupled with a waning interest in developing the agricultural sector and decreased prices for agricultural resources to underdevelop the agricultural industry. Consequently, the agricultural percentage of GDP was in steady decline by 1980.

Table 7.1 Major Components of the GDP of Nigeria (In percentages 1960 – 1980)

	1960	1964	1968	1972	1976	1980
Agr. Forestry & Fishing	63.4	57.6	55.0	32.0	27.3	21.1
Mining/Quarrying	0.9	2.0	2.7	39.3	27.3	21.1
Manufacturing & Crafts	3.6	5.6	7.6	4.1	5.6	5.9
Electricity & Water Supply	0.3	0.5	0.6	0.3	0.3	0.3
Building & Construction	3.0	4.4	4.9	4.1	10.9	15.9
Distribution	9.1	13.6	13.7	8.1	20.9	20.0
Transport & Communication	4.4	5.0	3.9	3.9	3.5	3.2
General Govt.	4.1	3.6	3.3	5.5	----	-----
Education	2.6	2.6	3.2	2.6	5.9	5.4

Table 7.1 Continued

Health	0.4	0.5	0.6	0.6	-----	-----
Other Services	1.9	2.0	3.2	1.4	2.7	3.1

Source: Data from I. N. Obasi, "The Domestic Dimensions of the Nigerian Economy 1960-1985," in U. J. Ugwu and R. Omotayo Olaniyan, eds., *Nigeria's International Economic Relations: Dimensions of Dependence and Change* (Lagos, Nigeria: Nigerian Institute of International Affairs, 1989), 4.

The development of the oil industry presented a windfall to the petit bourgeoisie and foreign investors. Soon after the discovery of oil an arrangement was concocted between some of the Nigerian elite and oil companies, which granted concessions above

and beyond anything the oil companies generally received from other countries.<sup>9</sup> Their ability to profit was in great part due to an oil boom from 1959 to 1981. Table 7.1 above illustrates how much weight oil came to have in the economy and the corresponding undevelopment of the agricultural sector. While it may be easy to criticize the corrupt regimes, a more likely explanation is proffered by development macroeconomics by a phenomenon labeled “Dutch Disease.” Simply put, the sector in the economy that experiences a boom “raises expenditures on both internationally tradeable and nontradeable goods but enhances only the supply of tradeables (through imports).” The price in the nontradeable oil sector, in this case export crop agriculture, is raised and creates new problems since “in the 1960s crops such as cocoa, oil, palm, and rubber were the principal source of export revenue.”<sup>10</sup> The following provides an example of the “Dutch Disease”:

As Moisés Naím, a former Venezuelan trade minister, explains in the current issue of the magazine *Foreign Policy*. "An economy that relies mostly on oil exports inevitably ends up with an exchange rate that makes imported goods less expensive and exports more costly." Agriculture, mining and tourism, he says, become "less internationally competitive."...Only when a country has a strong democracy, a large economy and an effective public sector, as in Norway and the United States, has oil not been a seriously distorting factor. The developing countries that have really made it, notably those in Southeast Asia, have lacked oil — and, often, other natural resources.<sup>11</sup>

As the case with many African countries, the profits from the oil boom were not

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<sup>9</sup> Segun O. Osaba, “The Economic Background of Balewa’s Foreign Policy, 1960-1965” in *Nigeria and the International Capitalist System* (Boulder, Colo.: Lynne Rienner Publishers, 1988), 19.

<sup>10</sup> David L. Bevan, Paul Collier, and Jan Willem Gunning, *The Political Economy of Poverty, Equity, and Growth: Nigeria and Indonesia* (Washington, D.C.: The World Bank, 1999), 50.

<sup>11</sup> Jonathan Power, “The gift that corrupts: Nigeria’s struggles against the curse of oil,” in the *International Herald Tribune* (Opinion, January 8, 2004).

redistributed in an effort toward a more equitable society. Only the elite, primarily the military elite, benefited economically from the oil boom. Urban workers received a slight improvement in their pay and more money was earmarked for education and healthcare. Unfortunately, during the period of the oil glut in the late 1970s (1978), expenditures on education were not adjusted to be commensurate with the economic reality. Rather, support of education was used as a political maneuver to retain the tenuous support of the masses. However, the decision to maintain the spending levels for education and healthcare were not carried out in a vacuum.

The context within which Nigeria had to develop dramatically changed during the Second Republic, which was a civilian government led by Shehu Shagari (1979-1983). It was during this period that the Nigerian economy would deteriorate to a point that facilitated the interposition of external development plans into Nigerian development schemes. The neglect of agriculture and an inability to diversify their economy since the oil discoveries came to a head with the end of the oil boom in 1981. From 1978 to 1982 Nigeria's foreign debt increased from 3.3 billion naira to 14.7 billion naira. Strangely enough, government spending increased over the same period.<sup>12</sup> Increased spending as the debt increases would not be strange for a society with high-growth. However, an underdeveloped society, such as Nigeria, should not increase spending as its debts rise. The larger context that Nigeria was trying to develop is best understood as a struggle between development ideologies. African countries had adopted the Lagos Plan of Action in 1980, which "was a decision for restructuring African economies on two

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<sup>12</sup>Helen Chapin Metz, ed., *Nigeria: A Country Study* (Federal Research Division, Library of Congress, 1992), passim.

principles: self-reliance (national and collective) and self-sustaining development.”<sup>13</sup>

The Lagos Plan of Action was an effort by African countries, under the auspices of the OAU, to have a meaningful sovereignty and was clearly a part of the objective of the Non-aligned Movement to secure greater independence for its members. African countries, like other underdeveloped nations, attempted to diversify their economies, develop their human resources by increasing their social service expenditures, and demand a more congenial international trading environment. The Lagos Plan of Action, which was highly critical of the western highly industrial countries, was in direct conflict with the Berg Report by the World Bank, which placed a significantly larger share of the burden on underdeveloped countries. The Berg Report focused on more openness, less corruption, and a greater focus on exploiting their comparative advantage in natural resources. Privatization was demanded, whereas greater expenditures on education and healthcare were frowned upon. Regardless of the contours of the debate, Nigeria faced a serious problem with institutionalized corruption.

It would be incorrect to define one period following independence as more corrupt than another period. An examination of Nigeria's history reveals a preponderance of corrupt regimes both civilian and military. This becomes even more noteworthy when we consider Nigeria's plight during the 1980s. The equity gap worsened during this period, social services were stretched, and the access for IFC was open. By 1980 per capita income in Nigeria was \$1,500.00, which for Africa was excellent. But the collapse of oil prices led to the dramatic decline of Nigeria's GDP.

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<sup>13</sup> Ake, *Democracy and Development in Africa*, 23.

The GDP had grown in 1980 2.9%. However, from 1981 – 1984 there was a decline, which hit its highest point at -4.9 in 1983 and -4.8 in 1984.<sup>14</sup> The inflow of International Finance Capital for 1980 is mixed. There was a significant decline in FDI (Table 7.2) but the net flows of long and short term loans (Table 7.3) were significant. The decline in FDI however, is consistent with the experience of developing countries in general.

Agenor and Montiel operationalize this period in three stages:

- (1) 1978-1981 – Represents a surge in capital inflows
- (2) 1982-1989 – Represents the period of the debt crisis
- (3) 1990-1994 – Represents a new resurgence in capital inflows.<sup>15</sup>

Agenor's and Montiel's format is consistent with Nigeria's experience in attracting FDI, which had resurgence in the 1990s (Table 7.2).

Table 7.2 Net Foreign Direct Investment (millions of US dollars)

1980	92	93	94	95	96	97	98	99	00	01
-739	714	581	588	677	760	1,539	1,220	1,472	1,374	1,800

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

Table 7.3 Net Flows: Long and Short-term loans, including IMF

1980	92	93	94	95	96	97	98	99	00	01
2,780	-708	-472	-660	-559	-1,334	-663	-279	-385	-696	-1,417

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The increase of FDI in the 1990s was offset by the decrease in Net Flows. Thus, there is no corresponding rise in the income or percentage of people advancing out of poverty. Table 7.4 reveals a miniscule change in income per capita during the 1990s and a glaring inability to return to 1980 levels.

<sup>14</sup> Gary Moser, Scott Rogers, and Reinold van Til, *Nigeria: Experience with Structural Adjustment* (Washington, D.C.: IMF, 1997), 9.

<sup>15</sup> Agenor and Montiel, 576-578.

Table 7.4 Gross National Income Per Capita

1980	92	93	94	95	96	97	98	99	00	01
780	290	240	220	210	250	270	260	250	260	290

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The stagnation in the GNI per capita is particularly problematic since Nigeria has experienced severe inflation since 1985. In not so ironic fashion, the leading international funding institutions were able to implement SAPs beginning in 1986 under the Babaginda regime. To stretch the irony further, whereas the IFIs call for democratic regimes, they were content to negotiate with the second consecutive regime installed by way of coup. This appears to be a trend in Africa. International Finance Capital on the face of it benefited from military coups. As documented earlier, African nations in general and Nigeria in particular, attempted to focus on a progressive development strategy in the late 1970s and viewed social services as an important conduit for development. However, movements that were at minimum progressive rhetorically produced counterrevolutionary acts. Thus, progressive forces, minute as they may be, were eliminated and internal divisions debilitated the ability of African states to develop. The collapse of civilian government coupled with the debt crisis to provide entrée to the neoliberal agenda to thwart any vestiges of Keynesianism, Marxism, or any variant of Third World self-reliance. In Nigeria, the civilian government of Shagari (1979-1983), rife with corruption, was overthrown by Major General Muhammadu Buhari in 1983. After only being willing to denounce corruption rhetorically, Buhari in turn was overthrown by Major General Ibrahim Babaginda in 1985. The IMF was in discussions with Buhari about an SAP but the masses were against the conditions required by the IMF. Two major mass-based organizations, the Manufacturers Association of Nigeria

(MAN) and the Nigerian Labour Congress (NLC) led the protests against the Structural Adjustment Programs.

The government responded with wage freezes and bans on further strikes. In an unusually bellicose move on May Day 1987, the NLC demonstrated vigorously against Structural Adjustment Program policies during a celebration at the national stadium in Lagos. Shortly thereafter the government rescinded its decision to abolish the minimum wage in firms employing fewer than 500 workers... Still, the economic downturn in the 1980s caused the NLC to lose influence, given the large number of layoffs and sharp decline in real wages.<sup>16</sup>

The Babaginda regime represented one of the worst periods of corruption in Nigerian post-colonial history. Billions of dollars were unaccounted for and the best example of the duplicitous relationship between IFC and African governments played itself out during the Babaginda administration. The partnership between the Nigerian government and Royal/ Dutch Shell Oil resulted in the judicial murder of Ken Saro-Wiwa. It was “the Ogonis [that] constituted a threat to those who ran Nigeria. By targeting the oil industry, the fountain of more than 90 percent of Nigeria’s export earnings, they had tweaked the vital artery that kept the heart of military rule beating.”<sup>17</sup> To be fair, it was the Abacha regime that carried out the hanging of Saro-Wiwa. But even in this context, one in which the military continually dominated political life and where the killing of Saro-Wiwa led to an international chorus denouncing the Abacha regime, IFC continued to find a place in Nigeria. Table 7.5 illustrates that the inflow of FDI continued to increase through the Babaginda and Abacha regimes.

Table 7.5 Major FDI indicators (Millions of Dollars)

	1970	1980	1990	1995	2000	2001
Inflows	205	-739	588	1,079	930	1,104

<sup>16</sup>Aborisade and Mundt, 143-144.

<sup>17</sup>Maier, 76.

Inward Stock	0	2,405	8,072	14,065	20,184	21,289
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Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The increase in 2000 and 2001 is a reflection of the “pressure to deliver a ‘democracy dividend’,” as the newly elected Obasanjo regime increased government spending as a result of an oil windfall in late 1999 and early 2001. Prices for a barrel of oil increased from \$18 per barrel to \$28 a barrel in 2001. Again the sharp rise in the oil sector led to a corresponding decrease in the agricultural sector. In fact, agriculture was not the only sector to experience a drop-off. The service sector, which accounted for 30.1 percent of GDP in 1999 declined to 27.1 percent in 2000. The manufacturing sector, which accounted for 3.5 percent in 1999 decreased to “less than 1 percent in 2000.”<sup>18</sup> The decline in these sectors however was not associated with a decline in private investment. In 2000 FDI increased to 12 percent of the GDP after “fall[ing] to a low of 3.7 percent of GDP in 1998.”<sup>19</sup>

The increase in private investment reflects two political and economic realities enveloping Nigeria and Africa at the time: privatization and democratization. Because of Nigeria’s notorious history of military dictatorships, corruption, and civil unrest, the Obasanjo regime came into power on an overtly democratic agenda. Obasanjo forced several military officials into retirement, attempted to seize funds stolen during the Abacha regime, and re-established good relations with the IMF.<sup>20</sup> This last characteristic is particularly important since a good relationship with the IMF/World Bank helped to reschedule Nigeria’s debt. “Nigeria has been carrying out a three-phase privatization

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<sup>18</sup> *African Economic Outlook*, 244.

<sup>19</sup> *Ibid.*, 244.

<sup>20</sup> Aborisade and Mundt, 214-215.



program since July 1999” and a significant sector for Nigeria that will provide a competitive advantage over other African countries, is the strength of its financial sector.<sup>21</sup> Liberalizing this sector is critical, particularly in light of the Uruguay Round of trade negotiations which focused on opening up and expanding trade in financial services. This is of particular salience since the trade in derivatives has increased at a remarkable pace in the 1990s and most highly developed nations are now preoccupied with portfolio investment. The East Asian countries and some Latin American countries have been able to stake their claim to portfolio investment but it remains scarce in Africa. Nigeria’s willingness and ability to exploit its advantage of being one of the few African nations with “an active stock exchange”<sup>22</sup> may result in their ability to attract portfolio investment. Challenges abound in this arena as well. As with much of the process of attracting international finance capital, it is often uneven in its purported benefits. As Joseph Stiglitz points out “financial service liberalization was arguably even harmful to some developing countries: as large international banks squelched local competitors, the funds they garnered would be channeled to the international firms with which they felt comfortable, not the small and medium-sized local firms.”<sup>23</sup>

Nigeria under the stewardship of Olusegun Obasanjo has clearly distanced itself from the Abacha era. Its openness to international investment has without a doubt impressed foreign investors and the major international funding institutions. But a blight remains even in these more optimistic times for Nigeria. Although the economy has

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<sup>21</sup>*African Economic Outlook*, 250.

<sup>22</sup> Ibid., 250.

<sup>23</sup> Joseph Stiglitz, *The Roaring Nineties: A New History on the World’s Most Prosperous Decade* (New York: W.W. Norton & Company, 2003), 206.

benefited from a surge in oil prices and increased government spending, by 2000 70 percent of the population was living under us\$1 a day. The majority of those in poverty, as with most African countries, were in the rural areas.<sup>24</sup> The continued advancement of trade liberalization may further agitate this problem since few Nigerian's are able to benefit from the sectors being liberalized. Table 7.7 demonstrates the extreme inequality that characterizes Nigerian socio-economic life. Table 7.7 Share of Income held by population groups

<u>Richest 10% (1986-1999)</u>	<u>Richest 20%</u>	<u>Poorest 10%</u>	<u>Poorest 20%</u>
40.8	55.7	1.6	4.4

Source: Data from *African Development Indicators 2003* (World Bank, 2003).

The persistence of intractable poverty disproportionately impacts women and children in Nigeria. In 2001 36.6 percent of the labor force was female and 23.5 percent of the labor force consisted of children under the age of 14.

None of this has stopped Shell, Chevron, or Exxon-Mobil from investing in Nigeria. The record of these companies, most notably Royal Dutch Shell, is well-known. These foreign companies have continued their operations even in light of negative publicity for quite some time:

The first discovery of commercial quantities of oil in Nigeria was in 1956; today, the country produces approximately two million barrels per day (bpd) of crude oil. Estimates of Nigeria's oil reserves vary from sixteen to twenty-two billion barrels, mostly found in small fields in the coastal areas of the Niger Delta. According to the Nigerian constitution, all minerals, oil, and gas belong to the Nigerian federal government, which negotiates the terms of oil production with international oil companies. Most exploration and production activities in Nigeria are carried out by European and U.S. oil companies operating joint ventures in which the

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<sup>24</sup>In fact, according to the *African Economic Outlook* "Almost 90 per cent of Nigeria's core poor were engaged in agriculture...while 58 per cent of the urban population were living in poverty."

Nigerian National Petroleum Corporation (NNPC), the state oil company, owns 55 or 60 percent; more recent contracts relating to offshore fields have been structured rather as “production sharing contracts” in which the government is not a formal partner. Shell operates a joint venture that produces close to one half of Nigeria’s crude production; Mobil, Chevron, Elf, Agip, and Texaco operate other joint ventures, and a range of international and national oil companies operate smaller concessions.<sup>25</sup>

Furthermore:

Nevertheless, oil production itself and oil-based industrial expansion have transformed the local economy, and some in the oil producing communities have benefited greatly from oil production. Those with full time employment in the oil industry are paid high wages for skilled work, but they are a well-paid minority surrounded by a mass of un- or underemployed; most do not come from the oil producing communities in any event. Contractors to the oil industry, often traditional leaders or those with close links to the military administrations of the oil producing states, also potentially make large amounts of money, often increased by the widescale corruption surrounding the award of contracts for construction and other oil industry projects—from which those in the oil companies in charge of the choice of contractor also benefit. Development spending by the oil companies has also brought schools, clinics, and other infrastructure to remote parts of the country that might otherwise be far more marginalized by the Nigerian government; but many of these projects are inappropriate for the needs of the communities where they are sited, and others are incomplete or shoddily carried out. Although a minority of politicians, traditional leaders and contractors have become rich on the spoils of oil, and hence support the oil industry’s activities, the great majority of people from the minority ethnic groups of the oil producing areas have remained impoverished; at the same time, the potential benefits of links to the oil industry have exacerbated conflicts within and among the oil producing communities.<sup>26</sup>

In Nigeria’s case, there seems to be no effort toward creating linkages and meeting the local needs of the community. When creating linkages states seek to promote policies that provide innovative technology to their countries, promote industrial and

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<sup>25</sup> Human Rights Watch, *The Price of Oil: Corporate Responsibility and Human Rights Violations in Nigeria’s Oil Producing Communities*. [http://hrw.org/reports/1999/nigeria/Nigew991-01.htm#P190\\_8265](http://hrw.org/reports/1999/nigeria/Nigew991-01.htm#P190_8265)

<sup>26</sup> Ibid.

educational policies, increases rather than decreases competition, and provides an impetus for people to work. These factors have been notoriously missing from the dynamic between the Nigerian government and the foreign oil companies. There is no significant discussion concerning the protection of infant industries or requirements for the transfer of technology. Further, local content requirements, which has been used by many underdeveloped nations in the past, “they...are now being phased out as a result of changes in host countries’ economic strategies (from protectionist to open strategies) and of international commitments, in particular the 1995 WTO TRIMs Agreement.”<sup>27</sup>

Finally, Nigeria’s stock exchange increasingly accounts for larger percentages of the nation’s Gross Domestic Product. In 1991 the stock exchange accounted for 6.88% of the GDP and by 2001 it accounted for 11.26% of the GDP. The impacts are numerous: it increases the attractiveness of Nigeria to investors, increases savings and investment (in theory), but also increases deregulation and opens the economy up to speculators. Table 7.1 illustrated how traditional industries, specifically the agricultural industry began to decrease in its portion of the economy. This fact, coupled with the growing importance of the stock exchange, indicates an economy being driven by external factors. Substantially the result will be increased unemployment, rise in black market activity, more organized activity against the state (i.e. guerilla warfare), and coercive state responses.

## Conclusion

Nigeria represents an example of an African country embracing International Finance Capital and rejecting people centered development. It is very likely that as the

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<sup>27</sup> UNCTAD, *World Investment Report 2001: Promoting Linkages* (Switzerland: United Nations, 2001), 167.

economy increasingly becomes driven by speculative capital that the society may devolve into civil war. Because of the importance of Nigeria to the region and the continent, this is a scenario that Africans can ill-afford. The opening-up of Nigeria's financial sector to international investor's, coupled with an already volatile climate, particularly in the oil-rich delta region, presents a very bleak outlook for change. Moreover, Nigeria's problems are generally couched in terms of governance, all the while underestimating the countries relationship to international finance capital. The following is an extract from a february 2007 National Geographic expose on Nigerian oil. It is lengthy but captures the rerality on the ground that is neglected, ignored, or the result of duplicity:

Oil fouls everything in southern Nigeria. It spills from the pipelines, poisoning soil and water. It stains the hands of politicians and generals, who siphon off its profits. It taints the ambitions of the young, who will try anything to scoop up a share of the liquid riches—fire a gun, sabotage a pipeline, kidnap a foreigner....Nigeria had all the makings of an uplifting tale: poor African nation blessed with enormous sudden wealth. Visions of prosperity rose with the same force as the oil that first gushed from the Niger Delta's marshy ground in 1956. The world market craved delta crude, a "sweet," low-sulfur liquid called Bonny Light, easily refined into gasoline and diesel. By the mid-1970s, Nigeria had joined OPEC (Organization of Petroleum Exporting Countries), and the government's budget bulged with petrodollars....Everything looked possible—but everything went wrong....Dense, garbage-heaped slums stretch for miles. Choking black smoke from an open-air slaughterhouse rolls over housetops. Streets are cratered with potholes and ruts. Vicious gangs roam school grounds. Peddlers and beggars rush up to vehicles stalled in gas lines. This is Port Harcourt, Nigeria's oil hub, capital of Rivers state, smack-dab in the middle of oil reserves bigger than the United States' and Mexico's combined. Port Harcourt should gleam; instead, it rots....Beyond the city, within the labyrinth of creeks, rivers, and pipeline channels that vein the delta—one of the world's largest wetlands—exists a netherworld. Villages and towns cling to the banks, little more than heaps of mud-walled huts and rusty shacks. Groups of hungry, half-naked children and sullen, idle adults wander dirt paths. There is no electricity, no clean

water, no medicine, no schools. Fishing nets hang dry; dugout canoes sit unused on muddy banks. Decades of oil spills, acid rain from gas flares, and the stripping away of mangroves for pipelines have killed off fish.<sup>28</sup>

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<sup>28</sup> O'Neill, T., "Curse of the Black Gold: Hope and Betrayal on the Niger Delta," *National Geographic* (February, 2007).

## CHAPTER EIGHT

### CONCLUSION

But *being paid*, -what will compare with it? The urbane activity with which a man receives money is really marvelous, considering that we so earnestly believe money to be the root of all earthly ills, and that on no account can a monied man enter heaven. Ah! How cheerfully we consign ourselves to perdition!

-Herman Melville, *Moby Dick*

In everyday life, people experience the effects of the market only through the products they can no longer afford, interest rates that make buying a home or improving a business impossible, the retrenchment of social welfare policies (such as electrification for rural settlements), and a decline in the standard of living.

-LiPuma and Lee, *Financial Derivatives and the Globalization of Risk*

#### Introduction

Susan George, in reflecting on the radical shift from Keynesian and state-led development to market-driven development, remarked that those living during the Bretton Woods era would think the current Gods insane. During the Keynesian period it was common practice to set limits on capital in order to protect citizens from the vagaries of the market. Even in the midst of the Cold War, the United States, self-appointed savior of all things free, saw fit to have a somewhat activist government – one that today's conservatives consider socialistic. Although that perspective is an exaggeration and reflects a zealot-like commitment to laissez-faire, the international political and economic environment has turned 180 degrees. As George points out, this turn was the result of a thorough campaign by supporters of neoliberalism to advance their interests. The fact that

there is such a thing as T.I.N.A and arguments about the end of ideology speaks to their success. Furthermore, African countries rushing pell-mell to privatize, democratize, and implement all things neoliberal, crystallizes the sterile nature of alternatives to financial liberalization.

Interestingly enough, for some the current economic crisis may seem like groundhog day. The U.S. government has been forced to once again become more interventionist. At the time of this writing the second stimulus package passed congress where the Federal Reserve injects close to a trillion dollars in to the economy. This follows the first bailout which effectively gave the U.S. government a stake in some of the biggest private financial institutions (i.e. Bear Stearns and AIG).

One must keep in mind that the ascendancy of international finance capital extends beyond theoretical debates about the incorporation of neoliberal regimes. LiPuma and Lee argue that the residual impact of speculative capital is an increase in abstract violence – violence often not attributed to finance capital. While the physical violence of the state and against the state still exists, more abstract forms of violence become sharper and more destructive as financial capital gains in importance. This becomes particularly problematic since there is no material villain to protest but an ethereal antagonist that disrupts access to healthcare, education, and shelter.

We are presently witnessing yet another financial crisis that has resulted from unregulated markets. Financial derivatives, in this case, credit default swaps are at the center of this most recent financial nightmare. This nightmare is one that is hitting the United States and European countries, hence the concern. In the United States, states are saddled with billions of dollars in budget shortfalls. What is striking is the abstract violence that is hurting these countries have plagued African countries for years. LiPuma and Lee presciently argued that “though it is



the regional crises and spectacular corporate failures that periodically put derivatives on the front page and internet banners, their social and economic effects are more pervasive and difficult to determine.”<sup>1</sup>

The information provided supports the two main hypotheses. The first argued that between 1980 and 2001 IFC actually increased in African and we expected to find a decrease in the ability of African countries to deliver health care, education, infrastructural development, and equity. The second hypothesis argued that during this same period more African nations would have embraced democracy, in its liberal variation, as opposed to social democracy.

All the case studies indicate the existence of domestic élites within African countries that benefit from IFC while the masses continue to suffer and have little access to the relative benefits of increased IFC. Botswana provides the best example of this because it has been applauded so much for its tradition of democracy and peaceful transitions from one administration to the next. The case study of Botswana highlights the government’s willingness to yield to the demands of trans-national enterprises in order to attract investment. The GDP of Botswana has consistently shown growth since independence. The government of Botswana has been able to leverage Botswana’s plethora of resources, namely diamonds, to attract investors. However, the purported benefits have not trickled down to the masses. The question then becomes – who is to blame? Do we blame the elite or hold the arbiters of IFC accountable. Our argument here is that both should be held accountable but increasing inequity will continue the more one opens the door to International Finance Capital.

Much of the discussion surrounding strategies for development remain grounded in previous notions of how countries develop, the stages of development, and generally how to

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<sup>1</sup> LiPuma and Lee, 4.

build their infrastructure. While all of these have salience, it does not quite capture the essence of how the world has been transformed. It is no longer possible or sensible to discuss African development without understanding the role of IFC. Development cannot simply be understood by bargaining with foreign companies and attracting FDI. To be sure, that is not the only aspect of development but one that was heavily emphasized just fifteen to twenty years ago. Now we must understand derivatives and how this financial tool became so dominant in the international market economy.

This study was an attempt to understand African development through the lens of the phenomena of International Finance Capital. It is particularly significant since the period under review, 1980 – 2001, represents a dynamic shift in capitalist production. However, even in this context, the fundamental Marxian notion of capital remains not only relevant, but indispensable for analyzing African development.

The thrust of this study develops from the hypothesis that the 1980-2001 period, over determined as it was by neoliberal conceptions of development, has contributed to the further underdevelopment of African countries. At root this study is concerned with how Africa enters into the relationship with IFC- As a commodity, money, capital, investment, or profit (i.e. surplus value)? We exposed the complexity of African engagement in the global economy and the nuance required to understand its variations. The habit of procuring a simple and easy analysis, whether from supporters of IFC or dyed-in-the-wool Marxists are insufficient. While some are comfortable believing that corruption is keeping Africa from developing, the facts fail to uphold that notion. Others are certainly convinced that increased IFC deepens African oppression. The case studies provide examples that show there is truth to both sides.

Nigeria and Kenya have both been ravaged by corruption and it is not a stretch to call either a kleptocracy. In the case of Kenya investors jumped ship after years of legalized corruption. In fact, much of the private investment that remained in the 1990s was from local private investors. Nigeria offers a different view of corruption simply because of Nigeria's abundance of oil, which is a much needed strategic resource.

African countries have adopted the There Is No Alternative (T.I.N.A) clarion call. While many on the left, are more than willing to assess T.I.N.A. as mere ideological propaganda, the fact is that African countries have roundly rejected socialism or other progressive ideologies. The countries examined in this study all are opening up their economies to varying extents. Whereas during the period of the Lagos Plan of Action some resistance was being marshaled against unchecked free-market forces, today there is no substantive resistance from the leading policy makers.

The language of resistance has moved from anti-colonialism to anti-imperialism to anti-capitalism to anti-corruption. African leaders are viewed, by their own citizens and outsiders, as the main obstacle for African development. No longer are external forces seen as the primary fetter on African development.

In a sense Africa has devolved to a period when modernization theory was prevalent. Rather than challenge the theory of modernization as in the past, it seems that most have bought into the idea that alleviating corruption is the panacea for what ails African countries. Consequently, Rostow's stages of development, have now been accepted, even if only unconsciously. African countries are no closer to "solving" the riddle of development. In fact, there has been increased discourse concerning "basic needs" rather than development.

Other writers have called for an African solution to African problems but the government officials are hell-bent on following the dictates of the neoliberal agenda. They have failed to view T.I.N.A. as a narrative supporting western hegemony. Realistically a radical response should not be expected. At minimum African countries, in concert with other underdeveloped countries, should seek to implement capital controls and mandate a time frame for investors to export capital. Some Asian nations have already implemented controls of this sort to varying degrees of success.

### Recommendations

Any meaningful long-term solutions must account for the following:

- 1- Institute a tax on foreign exchange transactions (whether it is the Tobin Tax or something else).
  - a. Doing this will help but it may scare off some investors. However, it is a trade-off that must be made. Too many African countries open their economies to the point of incredulity and that simply cannot continue. The Tobin Tax was proposed as a way to tax on trade of currency across borders. It was viewed as a way to alleviate speculation in the international currency markets. A particularly useful idea in the age of deregulation.
- 2- Build-up domestic savings and investment
  - a. Too much income is used to service debt. Consequently, when crises arise more debt is incurred and investment in the infrastructure is sorely deficient.
- 3- Strengthen regional organizations in the areas of finance and trade

- a. A proposition that most leaders in Africa would agree with. Regional organizations can attract more investment.

#### 4- Develop local infrastructure and industries

- a. Another protracted challenge. Import-substitution at one point was viewed as a means of meeting this challenge. This has been the major impediment of increased integration into the global economy. African countries have not developed their local industries and infrastructure and those that do invest in Africa, do very little by way of infrastructural development. Requiring a percentage of profits to go to development of the infrastructure is a start but one cannot get around the fact that local industries must be protected in some shape, form, or fashion. It is a hard sell in the present climate, yet the current international economic meltdown may provide leverage for the protection for nascent industries argument.

#### 5- Strengthen legal systems to root out corruption at the highest levels

- a. Although there have been many platitudes about good governance, poor leadership, corrupt leadership, remains a challenge. To be sure this challenge is everywhere but most African economies are not large enough to withstand corruption on a large scale. Here is where international partners are guilty of duplicity. Cooperation through regimes such as AGOA should have clauses in place that technology is transferred and a ceiling is placed on how much profit is accrued by the leadership. Tangible goals should have to be reached in terms of infrastructure

development and programs to alleviate those most impoverished.

- 6- Create strategies to develop rural areas, agricultural industry, and employment opportunities for women
- 7- Begin work on regional, continental, and international alternatives to current system. Any alternative must be focused on sustainable development and the equitable distribution of wealth.
  - a. This idea is not as far-fetched as it may seem. Anti-globalization scholars and activists have grown more vocal and active over the past 10-15 years. However, more scholars should incorporate this into their research agenda. Rather than accept the existing paradigm, scholars should challenge it at the gateway. It is only in this context that creativity and new ideas about development will flourish. In short, Kuhn's normal scientist should be thrown to the dustbins of history.

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